

NEXT LINK

ANNUAL REPORT 2006

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Nextlink is a technology company that develops technologies and products for audio communication. The company is active in three business areas: wireless Bluetooth headsets for the consumer market sold under the INVISIO brand, wired headsets for the professional market sold under the INVISIO Pro brand and technology development for OEM customers.

The core of Nextlink's business originates from the INVISIO Pro products, which are based on the company's patented Bone Conduction microphones. In addition to the patent for Bone Conduction microphones, Nextlink has two further patents: one for the SoftSpring ear fixture and the other for a terminal for VoIP telephony.

Nextlink's business concept is to develop, market and sell headset products for audio communication, under its own brand name, as well as for OEM contracting together with industrial players (contract development).

Nextlink's vision is to enable people to communicate comfortably in all sound environments.

Shares in Nextlink AB (short name NXTL) are traded on the OMX Nordic Exchange, on the First North list. Nextlink is headquartered in Copenhagen, Denmark.

## SHAREHOLDER INFORMATION

### Annual General Meeting

The Annual General Meeting will be held at 8:30 a.m., April 2, 2007 at Advokatfirman Westermarck Anjou, Drottninggatan 25, Stockholm.

### Notification

Shareholders wishing to participate in the Annual Meeting must be registered in the register of shareholders maintained by VPC AB no later than Tuesday, March 27, 2007 and notify the company no later than 12 noon on Wednesday, March 28, 2007. Notifications may be sent by post to Nextlink AB, PO Box 49149, SE-100 29 Stockholm, Sweden, or e-mail to investor\_relations@nextlink.to. Notifications must include the shareholder's name, personal identification/corporate registration number,

address, telephone number and shareholding, and, where applicable, details of representatives, proxy or advisors. Where applicable, complete authorization documentation, such as registration certificate and written authorization for proxies and representatives, must be appended.

## FINANCIAL INFORMATION

Publication schedule for financial information in 2007:

Interim Report, January - March	April 26, 2007
Interim Report, January - June	July 17, 2007
Interim Report, January - September	October 25, 2007
Year-end report	February 14, 2008

# 2006 highlights

## The year in figures

- Sales increased 51% to MSEK 57.5 (38.0)
- Gross profit rose 156% to MSEK 23.2 (9.1)
- The gross margin improved to 40.4% (23.8)
- An after-tax loss of MSEK 46.1 (loss: 11.0) was reported

## Significant events during the year

- New strategy, including a new brand strategy, was implemented
- Delays in product launches inhibited sales; a series of actions were taken to avoid additional delays
- Largest order in Nextlink's history was received for professional headsets from the French military forces
- Patent granted in both Europe and the US for the SoftSpring ear fixture
- New management team appointed and several key personnel recruited
- Sales office opened in Dallas, Texas, USA

## Product news

- INVISIO Pro Digital, a new professional product, was launched
- Three new consumer products were announced: INVISIO Q7, INVISIO G5 and INVISIO S20
- Nextlink developed and launched Nextlink AX3, the successor to the popular Bluespoon AX2
- Partnership entered into with Samsung pertaining to development of a state-of-the-art consumer headset based on Nextlink's patented Bone Conduction microphone

# President's statement

Advances in a development company take place in leaps. Not only that, but setbacks tend to occur when they are least needed.

Although Nextlink is not a pure development company but has, on the contrary, made considerable progress in its commercialization process, the year 2006 resulted in a number of major advances for Nextlink, but also some setbacks.

If we want to be discouraged for a moment, we need only look at the bottom line, which showed a loss of MSEK 46. If we are seeking exhilaration and optimism for the future, however, we must look behind the income statement to see the value-creating activities that were completed during 2006 and try to judge the economic value that they contain. But let us take the bad news before the good.

## **Several operational setbacks...**

### *Overly ambitious product goals*

At the beginning of 2006, Nextlink's development department was somewhat understaffed and suffered from a lack of procedures for advanced product development. During the first half of the year, the department worked on the development of no less than five quality products in parallel, all to be launched during the third and fourth quarters. In addition, the department was deeply involved in development work with Samsung.

In retrospect, it is easy to see that this was overly optimistic. The major mobile phone operators and other customers with whom Nextlink is negotiating, place extremely high demands on products. Regardless of how well a product functions in a laboratory environment or in its first versions, meeting all the requirements that arise during large-scale production is something completely different. The consequence of this high level of ambition was that only the consumer product Nextlink AX3 (the successor to Bluespoon AX2) was completely finished and then successfully sold under the brand Voice Star 600. The products for professional use were supplemented with the product INVISIO Pro Digital.

As of the fourth quarter of 2006 and then accentuated in the first quarter of this year, a series of measures were taken to create a balance between Nextlink's prerequisites for advanced product development and the ambition level for new products. The development department currently has 16 employees. As a result of a production contract signed with Flextronics in Denmark, the development department will have its manufacturing unit only a few hours away, with the advantages that this will entail for being able to quickly check that what has been developed in the lab will also work in full-scale production. The first sign that the new organization is effective is that all work this year has progressed exactly according to plan.

### *Speed before precision resulted in substantial nonrecurring costs*

In a change scenario, it is seldom possible to optimize speed and precision. The Board of Directors' Report lists nonrecurring costs totaling MSEK 17 during 2006, which served to drive up operating costs to as much as MSEK 65. Over several years (2001-2005), Nextlink's overhead costs were about MSEK 15 to 20 annually. In retrospect, it is evident that this was far too low cost level since such an amount was insufficient to realize the ambitions in all three business areas. The budget for 2007 includes overhead costs of slightly more than MSEK 50, which is also what Nextlink reported during 2006 after the elimination of nonrecurring costs. Highly dramatic changes occurred in 2006 during which Nextlink took the step from being a local development company to an international niche supplier of headset products. The organization's employees and culture were subjected to extreme strain due to no fewer than two changes of President (and a third at the start of this year), the establishment of the US office, an extensive strategy process and, as a result of that process, a comprehensive improvement of several different processes ranging from financial control to product development and sales. The pace was extremely high, and with hindsight, certain cost decisions appear less than fortuitous.

### *Flawed timing in build-out of the sales organization*

Because expectations at the beginning of the year were that a series of new products would be ready no later than by the end of the year, a sales organization was built up in the US starting in May. This organization has done considerable and excellent work in establishing contacts with leading mobile phone manufacturers, mobile phone operators and other potential customers, but with the results in hand, some of these investments could have been postponed by one or more quarters. During the first quarter of 2007, the US organization was scaled back somewhat.

The mistakes described above were not so serious that they could not be rectified. The market has not advanced so fast that we will not be able to make up for lost time. Accordingly, the mistakes had only an isolated effect on 2006. We have learned from them and are now resolutely dealing with what went wrong. The mistakes were operational, not strategic.

## **...and a long series of significant advances**

The advances made during 2006 – in contrast to the mistakes – will also have an effect on coming years. The advances were primarily at the strategic level, but also included operational issues.

Operational advances included a sharp increase in sales during 2006 from MSEK 38.0 to MSEK 57.5. Gross profit increased from MSEK 9.1 to MSEK 23.2, while the gross margin increased from 23.8 percent to 40.4 percent. Despite falling prices in the industry, we succeeded in maintaining a relatively constant unit price in consumer products. The sales increase is actually highly substantial, considering that we really only had a single consumer product to sell – the AX 3.

#### *Many strategic advances*

The strategy project naturally included the important issue of how Nextlink, as a very small company in the industry, will achieve success with its products when customers already have many relatively good products from which to choose. The answer is that we must find niches for our products where we can charge for the very high quality that distinguishes Nextlink products. To a greater extent, we must also emphasize product characteristics so that we are not trapped in simple price comparisons.

Over a number of years, Nextlink has succeeded in positioning itself as a quality supplier of the company's professional products, primarily to military special forces units under the brand name INVISIO. This brand will now also be used for consumer products that will gradually be targeted at the market's least price-sensitive segments. During 2006, three very exclusive products were announced for the consumer market: INVISIO Q7 (with Bone Conduction technology), INVISIO G5 (the world's smallest headset) and INVISIO S20 (stereo headset). The INVISIO Q7 and G5 were exhibited at the annual Consumer Electronics Show (CES) in Las Vegas in January 2007 and were awarded the jury's Innovations Honoreé Award in the wireless communications category.

During 2006, Nextlink developed technology for a headset for Samsung based on the company's patent for Bone Conduction microphones but which was adapted to match consumer requirements. Nextlink's success in this project was an excellent testimonial and provided an extensive development of expertise that will benefit the company in both future development projects with other OEM projects and its own products.

The distribution agreement with RadioShack, which was previously exclusive for RadioShack, was renegotiated during the period to a non-exclusive agreement.

#### *Patent situation improved significantly during 2006*

The patents for the SoftSpring ear fixture were finally approved in Europe and the US. These patents grant exclusive rights to an ergonomically designed fixture in the form of a soft rubber spring that fits Nextlink's headset to the ear in a unique manner. The patent generated considerable attention from other headset manufacturers.

Nextlink has an additional patent relating to a VoIP terminal. This patent, which was previously approved in the EU, was also approved in the US in January 2007. Nextlink will develop a strategy for optimally leveraging the value represented by this patent.

Industrial players have approached Nextlink regarding various forms of deeper partnerships. Some of these discussions will be intensified during the first six months of 2007.

#### **...create a trampoline effect going into 2007 and 2008**

Nextlink is fundamentally improved and very strong entering 2007. During the year, the transition from a development company to a marketing company will continue. Nextlink has a broad and largely new product portfolio to which justifiably high expectations can be linked.

Interest in Nextlink's products is high in both Europe and the US. During 2006, a number of very valuable customer contacts were forged. Prospects are also favorable for continued success in the professional segment. The new INVISIO Pro Digital headset received highly favorable results in tests with our most demanding customers.

Accordingly, the foundation is now in place for 2007. Backed by a clear strategy, excellent business partners, several new products and very motivated employees, we are well prepared for the future. Now it is time for the organization to show that it can achieve an increase in sales and gross profit combined with reasonable overhead costs so that we reach break-even before the end of the year.

Over many years, Nextlink's shareholders have remained loyal and invested funds to finance the company's development. However, share ownership is not based on constantly participating in new share issues. It is based on receiving returns from shareholdings and participating in the growth in value of the shares. The organization must now do its utmost to ensure that not only customers and business partners enjoy the fruits of our efforts, but also the shareholders.

To employees and shareholders: Many thanks for your commitment and loyalty during 2006!



Lars Højgård Hansen  
President (Acting)

# Nextlink in brief

## BUSINESS CONCEPT

Nextlink's business concept is based on developing, marketing and selling headset products for audio communication under its own brand name, as well as for OEM contracting together with industrial players (contract development).

## VISION

Nextlink's vision is to enable people to communicate comfortably in all sound environments.

## MISSION

The company's mission is to provide world-leading products and technologies that enable high-quality audio communication in all sound environments.

## BUSINESS AREAS

The core of Nextlink's business originates from the INVISIO Pro products, which are based on the company's patented Bone Conduction microphones. Nextlink is a technology company that develops technology and products for audio communication. The company is divided into three business areas:

- **Consumer products.** Wireless Bluetooth headsets under the INVISIO brand
- **Professional products.** Wired headsets under the INVISIO Pro brand
- **Technology licensing and product development** for OEM customers

## BUSINESS OBJECTIVE

Nextlink's business objective within each business area is to be the market-leading niche supplier of high-quality headsets with the best possible voice quality.

## OVERRIDING BUSINESS STRATEGY

Nextlink's overriding business strategy is based on the following main points:

- Continuing to develop the company's existing patent portfolio
- Increasing the number of new products while shortening development cycles
- Exploiting new customer segments and new geographic markets
- Developing the research and development organization
- Creating industrial partnerships with manufacturers, operators and distributors of mobile phones and accessories.

## PATENTS

Nextlink has developed and owns three patent families:

- **Bone Conduction microphone.** This patented system consists of a small ear microphone that captures vibrations in the user's jawbone and converts them to sound
- **SoftSpring ear fixture.** An ergonomically designed fixture in the form of a soft rubber spring that fits the Nextlink headset to the ear in a unique manner
- **VoIP terminal.** A patent for a wireless communication terminal for IP telephony (VoIP).

## MARKET

The professional market is divided into two main customer groups based on different customer needs: government users, such as police, rescue services and military units, and private users in such sectors as construction, marine and aviation industries.

Nextlink estimates that the market for professional mobile radio communication equipment is growing by about 2 percent annually, although the market for accessories is deemed to have a higher growth rate. In total, Nextlink estimates that the global market for professional headsets amounts to 1.4 million units per year, corresponding to a total value of slightly more than SEK 2 billion.

Nextlink's customers in the consumer market are primarily found in three different segments: retailers (electronics chains for consumers, mobile phone specialists, etc.), distributors (distributors of consumer electronics) and mobile phone operators.

Growth in consumer products is primarily driven by the number of mobile phones with embedded Bluetooth transmitters. According to the market analysis firm Strategy Analytics, some 730 million mobile phones were sold worldwide during 2005, of which 150 million or 20 percent were equipped with Bluetooth. Strategy Analytics estimates that the number of Bluetooth equipped phones will grow to 275 million during 2007.

The professional and consumer products are sold in Europe and the US. Because OEM projects are customer-related, they may take place in any geographic market. The professional products are sold largely through a number of specialized distributors. In the distribution of consumer products, Nextlink cooperates with telecom operators, distributors of mobile phones and accessories and electronics chains.

## ORGANIZATION

Nextlink's head office is located in Copenhagen, Denmark, where research and development, marketing and administration of operations take place. The company's sales organization for consumer products, and to a certain extent for professional products, is located in the company's US office in Dallas, Texas. All manufacturing of consumer products is outsourced to subcontractors. Final assembly of professional products takes place at the office in Copenhagen. At December 31, 2006, the number of employees in the organization was 39 (22), of whom 16 were employed in research and development.

## THE NEXTLINK SHARE

The Nextlink share is traded on First North under the symbol NXTL. At December 31, 2006, the total number of shares amounted to 14,663,453, and Nextlink's market capitalization on the same date was approximately MSEK 314.

## HISTORY

In 2000, Nextlink launched its first product, INVISIO Custom Made, in the international market. This launch was followed one year later by an additional model, INVISIO Standard. Both products were developed for professional users, such as the military, rescue services or police. In 2001, Nextlink began to experience increased demand in products targeted at the consumer market, and in 2002, the company developed the first wireless headsets based on Bluetooth. The company's first investment and OEM contract was signed in 2006 with Korea's Samsung, the world's third largest mobile phone manufacturer, and included development of an advanced Bluetooth headset for the consumer market.

To facilitate financing and future listings, a Group structure was established in 2003, in which Nextlink AB became the Parent Company while all business operations were conducted in the wholly owned Danish subsidiary Nextlink.to A/S. In June 2004, shares in the Parent Company Nextlink AB were listed on NGM Nordic OTC marketplace, and in May 2006 the share changed its marketplace to Nya Marknaden which subsequently became part of First North in June 2006.

# Market overview

## CONSUMER MARKET



### History

Bluetooth wireless technology was developed by Ericsson in the late 1990s. The technology was then standardized by the Bluetooth SIG (Special Interest Group), meaning that the technology became available to a large number of players. The first consumer products based on Bluetooth technology were developed during 2000 in the form of wireless headsets for mobile phones.

Initially, Bluetooth technology was very expensive, which meant that the price of mobile phones with built-in Bluetooth functionality was much higher than other phones. For this reason, Bluetooth transmitters were integrated almost exclusively in mobile phones in the upper price segment. The initial customer group for Bluetooth headsets in the consumer segment comprised consumers with high purchasing power and those who needed to communicate with others while still keeping their hands free. These customer groups primarily comprised people in the business community, as well as those with a intent interest in technology. Telecom operators welcomed the new technology, since it created incentives in the form of mobility and flexibility for the consumer, while contributing to a relative increase in traffic in mobile phone networks, compared with the fixed network.

When the price of Bluetooth technology began to decline, mobile phone manufacturers, such as Nokia, Ericsson and Samsung, began to establish themselves in earnest in the market for Bluetooth headsets. Several smaller Asian suppliers also attempted to establish themselves, but found it more difficult to take significant market positions since falling prices undermined their main competitive advantage.

### Market structure

Today there are three main categories of manufacturers in the Bluetooth headset market. The largest in the consumer market are the major mobile phone manufacturers that develop and market their own Bluetooth headsets. The second category consists of companies that are specialized exclusively in different types of headsets. These players sell their products under their own brands or in OEM partnerships. The third category consists primarily of smaller Asian manufacturers that sell their products only regionally in Asia and through OEM contracts.

Many producers have outsourced production and assembly of their Bluetooth headsets. Sales are usually handled internally through the companies' own sales channels.

## Headset market

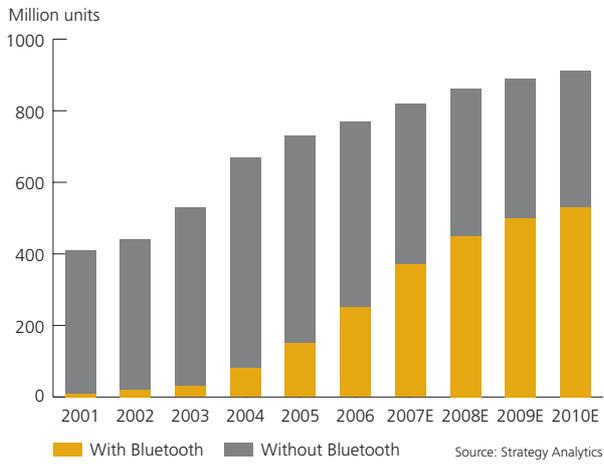


### Trends

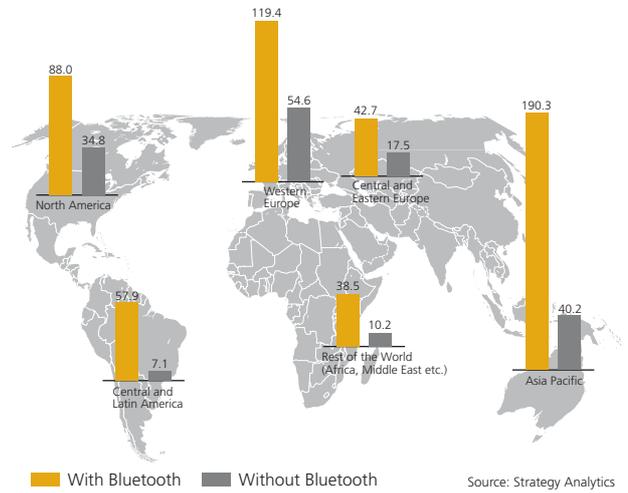
The trends in the Bluetooth headset market are towards development of products that are smaller and lighter. From a design standpoint, consumers primarily demand Bluetooth headsets that are as discreet as possible, but that are also perceived as trendy and fashion-oriented accessories. Demands for usability and functionality have also increased significantly. Today the emphasis is on improving audio quality for both mono and stereo sound.

In the Western world, it is primarily the UK that is most advanced in the number of Bluetooth users. Growth potential is currently considered very substantial, particularly in Russia, but also in the US, which has lagged behind the European market somewhat in the use of Bluetooth but which is expected to show strong growth. In the rest of Europe, and in certain Asian countries, growth in Bluetooth headsets is potentially strong.

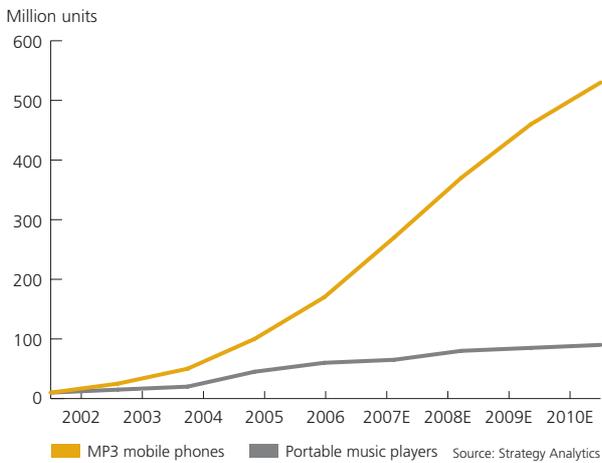
### Global sales of mobile phones (forecast)



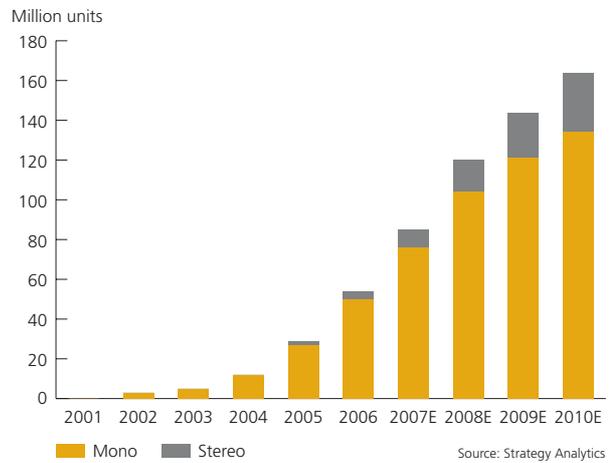
### Geographic sales of mobile phones (forecast)



### Global sales of MP3 players (forecast)



### Global sales of headsets (forecast)





### Driving forces in the consumer market

Growth in consumer products is primarily driven by the number of mobile phones with integrated Bluetooth transmitters. Nextlink's assessment is that the long-term market potential for Bluetooth-based headsets is substantial. Even in a short-term perspective, a number of factors indicate that growth in Bluetooth headsets will be strong.

Headset functionality is a matter of standby time, talk time, sound quality, voice reception and signal strength, which are all characteristics that are constantly improving. Accordingly, existing headset users have reason to upgrade to a headset that offers better quality.

Another important driving force is design preference. The market is characterized by several different customer types whose demands in terms of product appearance differ. Younger users want trendy and fashion-oriented products, while business users demand greater functionality. To a certain extent, product design is also dictated by cultural differences, which are very evident between different countries. For many users, this type of product is mainly seen as a stylish

accessory. It is thus a question of creating a fashion-oriented perception of the product and not focusing exclusively on technical function. This opens the market for a wider range of products, where a single technical solution may provide the foundation for a large number of product variants to satisfy different personal tastes.

Product functionality is a driving force in itself. Higher voice and sound quality make it possible to speak freely despite noisy surroundings. Not having to step aside under noisy conditions or being able to talk without restriction while performing a work assignment with both hands free creates many opportunities in the labor market.

Driving forces do not derive exclusively from end users, however. Operators also have strong reasons to hasten development toward increased use of Bluetooth headsets. Operators want to move telephone traffic from fixed to wireless networks because wireless networks often generate more revenue.

Legislative approaches to the use of mobile phones are also hastening the trend toward an increase in Bluetooth headsets. In several European countries, bans have been introduced on using handheld mobile phones in cars. A similar development is taking place in the US. The drivers who nonetheless wish to be able to talk on the phone while driving a car must then invest in a solution that allows telephone calls without using the hands. In this case, a Bluetooth headset is a much less expensive and simpler installation than a traditional hands-free installation.

Yet another driving force is the strong multimedia trend in which headsets play a central role as an accessory. Music and video calls, but also computer games, are illustrative examples.

The ability to make phone calls over the Internet (VoIP) also opens the way for increased use of Bluetooth headsets. The number of computers equipped with Bluetooth is increasing steadily. With such a computer and a Bluetooth headset, a user can easily and flexibly talk on the phone directly via the computer, meaning without either a mobile or fixed telephone.

Higher volumes and greater production efficiency are examples of reasons for the substantial price pressure characterizing a growing market of this kind. Falling prices become a driving force and create opportunities for more potential consumers and larger customer segments. A larger market also means that most segments become so large that even a small segment is sufficiently large for rational marketing.

### **Shifts in technology create new application areas**

Today there are four main application areas for wireless headsets: mobile telephony, computers, media players and game consoles. These application areas are characterized by rapid and intensive technological development, resulting in increasingly advanced products. Development also means that the different areas are also beginning to merge in terms of functionality, thus bolstering demand for Bluetooth headsets. A clear example of this is the use of mobile phones as music players.

### **Expectations**

According to the market analysis firm Strategy Analytics, some 730 million mobile phones were sold worldwide during 2005, of which 150 million or 20 percent were equipped with Bluetooth. Strategy Analytics expects that the number of Bluetooth-equipped phones will increase to 275 million in 2007, meaning that one of every three mobile phones sold will be equipped with Bluetooth. The fastest growing geographic market is North America, which previously lagged behind Europe with respect to Bluetooth but where Bluetooth phones and headsets are rapidly gaining in popularity. To date, mobile phones have been the dominant application area for Bluetooth headsets, but in recent years, an increasingly evident trend has emerged in which other application areas, such as portable media players, handheld game consoles and Internet telephony (VoIP) are driving demand for Bluetooth headsets.

Nextlink expects that increased use of headsets for mobile phones and other applications will result in strong market growth for several years to come.

## **MARKET FOR PROFESSIONAL USERS**

Since the introduction of advanced headsets supporting two-way communication, professional users with high requirements for reliability, durability and voice quality have dominated demand for such products. User groups such as military units, police, rescue units and SWAT teams, have been able to derive considerable value from innovative solutions. New products have made it virtually possible to maintain constant and reliable communications without regard to the user's situation or acoustic environment.

### **Market structure**

Given that professional customers largely require high quality and complex solutions, this market is dominated by a few producers. As a rule, these players have many years of experience of partnerships involving development and delivery to customers with meticulous demands for product quality, reliability and functionality. The market for professional headsets is thus characterized by higher entrance barriers than the consumer market.

### **Trends and driving forces**

The market for professional headset users is relatively mature; although, there is considerable growth potential as technology continues to advance.

Falling prices and new types of products will make it possible to interest new professional groups in investing in these advanced communication solutions.

The product lifecycle is becoming shorter. The pace of development of two-way communications products and applications for professional users has generally been slower than development of products for the consumer market. However, the product lifecycle for professional products has declined from about five years when they were first launched to about three years today. The assessment is that lifetime will decline further, although not to the level characteristic of the consumer market.

A contributing factor in the increased pace of development is that a transition is taking place from analog technology to digital technology. Several producers have already launched digital versions of their analog products.

In pace with advances in technology making it increasingly possible to customize communication solutions for specific customer requirements, a market is being opened for integrating communication solutions in the existing equipment of professional users.

Examples include integrating headsets in helmets for police and military personnel, in gas masks for firemen or in other types of work clothes, as well as other means of integration with existing communication equipment.

For manufacturers of equipment for professional customers to meet emerging requirements and more specific demands, they must be able to offer their products through most of the various sales and distribution channels. However, skilled sales and marketing personnel and a strong network of distributors is not sufficient. Creating opportunities for customizing the customers' communication equipment to their specific requirements often demands very close cooperation with the customer.

### **Quality assurance**

Because professional headsets are often used under demanding conditions, and not seldom in situations where the user's life may be in danger, it is extremely important that they are of the highest quality – users must be able to rely on the equipment functioning at all times. To ensure this, it is important that production is quality-assured. In addition to implementing a number of internal processes, producers must undergo some form of certification.

### **Growth potential**

The market for professional products is expanding as new customer segments become aware of the need and benefits for smooth communication solutions. Many professional groups place great value on being able to communicate without disturbance, regardless of surrounding sound levels. This becomes even more attractive as the equipment required is not only small and neat, but also robust and rugged.

Continuous improvement of product specifications, combined with extensive opportunities for customizing solutions should make it possible to attract new users with new types of requirements.

As technology and production become more efficient and less costly and the price of primarily the more basic products declines, the market will expand to include even more price-sensitive segments, such as fire departments, transport companies and other industrial users.

### **Expectations**

Nextlink estimates that the market for professional mobile radio communication is growing by about 2 percent annually, while the market for accessories is considered to offer higher growth. Overall, Nextlink estimates the global market for professional headsets at 1.4 million units per year, corresponding to a total value of slightly more than MSEK 2 billion per year, of which about half is considered to derive from North America.

## VoIP MARKET

VoIP technology means that telephone traffic is handled over the Internet. This provides several advantages compared to traditional telephony systems. VoIP advantages include enabling new types of applications to be created, generating cost savings from integrated voice and data networks, lower investments in equipment and reduced operating costs. Companies primarily see VoIP as a tool for reducing costs over the short term. As a result of weak economic conditions, many players were previously hesitant to invest in infrastructure for VoIP, but in pace with improvements in the economy, interest in VoIP has accelerated.

In the US, VoIP operators such as Vonage, 8x8, Skype and pulver.com have established themselves and are taking market shares at the expense of traditional telecom operators. Development in Europe is also advancing as operators such as Tele2 and Bredbandsbolaget in Sweden and Fastweb in Italy offering VoIP services on a larger scale. Established operators, such as Telia, are also launching VoIP. The trend is the same in most European countries. In summary, this trend means that the number of VoIP users is increasing rapidly and, thus, so is the market for VoIP consumer products.

### Driving forces in the VoIP market

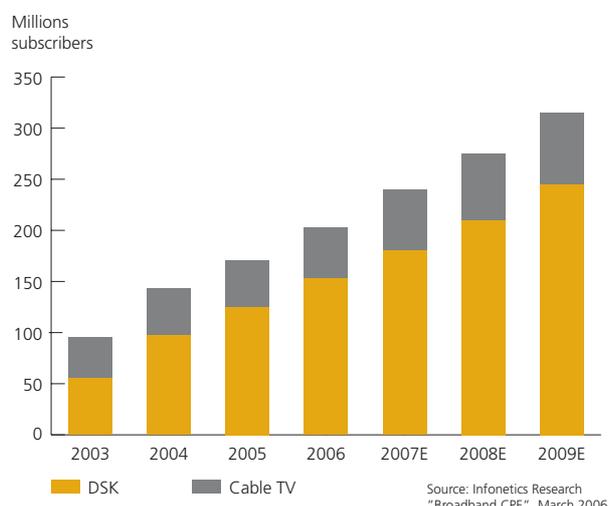
The principal driving force in the VoIP market is growth in broadband subscription. A broadband subscription is a prerequisite for well-functioning VoIP services, while VoIP is simultaneously also one of the services that is driving broadband growth. According to the analysis company Infonetics Research, the total number of broadband subscribers worldwide exceeded 170 million at the end of 2005, and this number is expected to double by 2009. This corresponds to annual growth of 16 percent.

In Europe, the market is characterized by strong growth, which creates opportunities for new players and thus greater competition. Growth in the US market has not been as strong in Europe, which may be explained by the fact that Europe to a greater extent implements broadband access using DSL instead of via cable TV.

### Expectations

For the US market, the analysis company Strategy Analytics estimates that nearly 12 million households had a VoIP supplier at the end of 2006. Strategy Analytics also predicts that this user share will increase to nearly 40 million by 2011.

## Broadband subscribers, global



# Description of operations

## OPERATIONS

Nextlink is a technology company that develops technology and products for audio communication. The core of Nextlink's business originates from the INVISIO products which are based on the company's patented technology relating to Bone Conduction microphones. In addition, Nextlink has two other patent families; one relating to a fixture device for headsets (SoftSpring) and another to a wireless terminal for VoIP telephony.

The company has three business areas:

- **Consumer products.** Wireless Bluetooth headsets under the INVISIO brand
- **Professional products.** Wired headsets under the INVISIO Pro brand
- **Technology licensing and product development** for OEM customers

## RESEARCH AND DEVELOPMENT

### Internal product development – Nextlink's strength

Research and development is Nextlink's core business. These operations are conducted primarily within the company. Nextlink focuses mainly on development of software and hardware for integrated headsets and audio DSP (Digital Signal Processor) systems. Most Nextlink engineers are working on improving the products sold under our own brands. Nextlink bases its business on very strong and innovative patents and the company will continue to strive to expand its patent portfolio. Currently the company has three registered patents, which cover technologies for transforming speech vibrations from the jawbone to sound, VoIP communication via wireless terminals and the company's unique SoftSpring ear fixture.

### Patents

#### Bone Conduction microphone

This invention is based on an earplug (10-12 mm) designed to be fastened to the outer ear. This earplug contains both a speaker and a microphone. Speech sounds are transmitted via the user's jawbone and screen out airborne audio signals, thus ensuring direct transmission of the user's voice despite other external surrounding sounds.

When people speak, vibrations are generated in the vocal cords and throat. These vibrations are transmitted through bone and tissue. The jawbone in particular, which passes close to the front part of the outer ear, is a strong transmitter and transfers a broader spectrum of sound than if the signal came from the throat.

Patents have been granted in the US, Europe and Singapore. The European patent was issued in 1993 and expires in 2013. The US patent was issued in 1997 and expires in 2014, while that in Singapore was issued in 2001 and expires in 2013.

#### SoftSpring ear fixture

SoftSpring is an ergonomically designed fixture device in the form of a soft rubber spring that fits Nextlink's headset to the ear in a unique manner. With SoftSpring, the user hardly feels the headset in the ear and the risk of discomfort is very low, even in conjunction with prolonged periods of use. SoftSpring is supplied in two different sizes with every INVISIO headset and can be trimmed to the desired length by the user.

Patents were granted in Europe and the US in May 2006 and will expire in 2021.

#### VoIP terminal

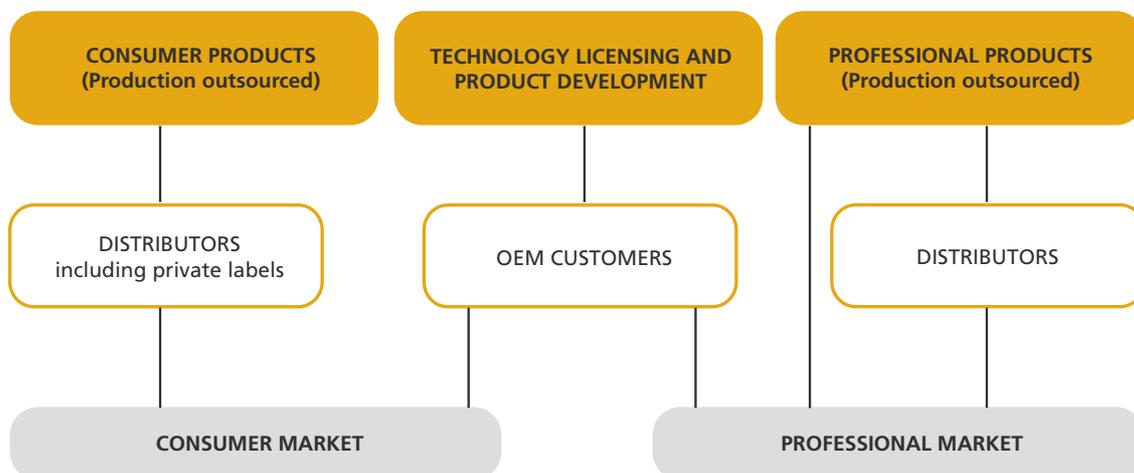
Nextlink was granted a European patent for wireless communication solutions for IP telephony in April 2004. The patent covers a portable electronic terminal that is able to provide a VoIP connection to a wireless network or Internet.

The patent was granted in Europe in 2004 and in the US in January 2007. The patents will expire in 2021. The corresponding patent application is being processed for China, Japan and Hong Kong.

#### Bluetooth Special Interest Group

Bluetooth Special Interest Group (SIG) is a non-profit organization that works to promote development and use of Bluetooth products. Each company that uses Bluetooth technology must be a member. At present there are about 7,000 such member companies. Nextlink is included in a group of about 250 associated members that are deeply involved in the development of Bluetooth technology.

## Business areas



### Investments in product development

During 2006, Nextlink invested heavily in product development to be able to develop products on a larger scale and with even shorter development cycles. These investments entailed more new recruitment and investments in development and test materials. Since the recruitment process has taken longer than anticipated, the company is temporarily using external consultants, which it intends to continue to do during 2007.

### Manufacturing contracts

In January 2007, Nextlink signed a contract with Flextronics regarding the production of the company's consumer products. For Nextlink and its customers, cooperating with a major supplier from which product quality and delivery assurance is of absolute world class is of the utmost importance. Nextlink's advanced technologies place high demands on the manufacturer and its production methods.

## PROFESSIONAL PRODUCTS

Launched in 2000, INVISIO Pro Custom Made was Nextlink's first product. Nextlink's headsets for the professional market are sold under the brand INVISIO Pro. This product group is targeted at users within the military, rescue services and the security industry, which all work in extreme environments with specific demands on functionality. INVISIO Pro is developed for communication using exclusive radio units and walkie-talkies. Since the start, INVISIO Pro has been continuously enhanced and is now a product group consisting of headsets and PTT (Push-to-talk) units.

### Unique Bone Conduction technology

INVISIO Pro headsets are based on a very unique Bone Conduction technology patented by Nextlink. Thanks to the headset's integrated jawbone microphone, the INVISIO Pro user can speak very softly, or even whisper, yet the sound is still heard clearly and distinctly by the receiver. The method of transmitting speech vibrations via the jawbone also means that distracting airborne sound sources are completely screened out – sounds that would be taken up by the microphone if a conventional microphone technology were used. Accordingly, Bone Conduction technology ensures very clear transmission of the user's voice, regardless of the surrounding sound level.

### Nextlink's market position

The professional market is divided into two main customer groups based on different customer needs: government users, such as police, rescue services and military units, and private users in such sectors as construction, marine and aviation industries. The principal customers are in Europe and the US. In recent years, Nextlink has steadily increased its market share in the professional market with its INVISIO Pro products and has an excellent reputation among the world's most well-known military special forces units and SWAT teams.

## Competition

The market for professional headsets is fragmented, with many small, local players and no clear leader in the segment. Motorola, Peltor, Nacre, Silynx, Davis Communications, Sonic and New Eagle are among the largest players, although none of them offer products with technology equal to that on which INVISIO Pro is based. Due to the complex technology and relatively high degree of specialized products, Asian low-cost producers have yet not entered the market. Nextlink has well established partnerships with Sonic and Davis Communications that include product sales.

## Outlook for 2007

Nextlink experienced very strong growth for its professional products during 2006, including the largest order to date for INVISIO Pro headsets. This order, which totaled 3,300 units, was from the French military.

To an increasing extent, the industry is starting to demand digital rather than analog products, resulting in Nextlink's launch of the new INVISIO Pro Digital in the latter half of 2006.

In line with Nextlink's overall strategy, a new expansion strategy was implemented for the Professional product area. During 2007, Nextlink will expand its product portfolio, thus enabling the company to address more customer segments than today. A broader product portfolio will also open new geographical markets.

For the professional user, the entire communication system consists of a two-way radio unit, a PTT (push-to-talk) unit and a headset. In addition to offering headsets and PTT units, Nextlink is often asked to assist in optimization of the system or the development of customized solutions. This is an area in which the company will become involved on a project basis during 2007.



## Models

To date, Nextlink has developed and launched three INVISIO Pro headsets. In addition, Nextlink has developed a selection of PTT units. The headsets are supplied worldwide and are also found in OEM products.

### INVISIO Pro Custom Made

This is the original INVISIO model. Each unit is made using a formable impression and thus adapted to each individual's ear. As a result of the light weight combined with the ergonomic design, the user hardly feels the headset in the ear and the risk for discomfort in connection with prolonged periods of use is significantly less than when using other types of headset systems. Users can choose between models for the right or left ear. Individual ear impressions are easily performed by Nextlink or a local audiologist.

### INVISIO Pro Standard

INVISIO Pro Standard is manufactured in a standard format that suits either the right or left ear. Although it is not individually designed, the light and durable material means that users of this product also hardly feel the headset in their ear and can use it for prolonged periods without discomfort. INVISIO Pro Standard is a unique product developed and marketed exclusively by Nextlink. INVISIO Pro Standard is delivered with a cord and is compatible with a large number of radio and mobile systems from the leading manufacturers.

### INVISIO Pro Digital

INVISIO Pro Digital was launched at the end of 2006 as a result of increasing numbers of analog two-way radio units being replaced by digital units. The headset itself resembles INVISIO Pro Standard with respect to design and ergonomics, but the INVISIO Pro Digital contains a DSP (digital signal processor) chip for improved sound quality.

### INVISIO Pro PTT (Push-to-talk)

Nextlink has developed several PTT units to be able to provide a uniform solution to customers. The PTT unit is the talk button that the user presses to communicate in a two-way communication system.



## CONSUMER PRODUCTS

Since Nextlink's first headset for the consumer market was launched in 2002, new versions of wireless headsets have been developed under the brand Bluespoon. These products have won awards and received positive ratings in user tests worldwide. The new brand strategy established during 2006 means that all consumer products will be marketed under the INVISIO brand, instead of as previously under Bluespoon. (See also the description of the new branding strategy under the section Business concept, vision, mission, goals and strategy.)

The INVISIO product line consists of headsets targeted at mobile phone users and early adopters of IP telephony (VoIP) in the consumer market. Common for all INVISIO headsets is that they are wireless and based on Bluetooth technology.

In the consumer market, Nextlink strives to obtain a niche position where end customers place a premium on design, technology and functionality and where price is not a decisive factor in the purchasing decision.

### INVISIO's unique qualities

Most Bluetooth headsets offered on the market are approximately the same size and employ a similar design. However, there are certain characteristics that set Bluetooth headsets apart. What distinguishes INVISIO headsets from competing products in the market can be summarized as follows:

- Patent-protected technology relating to the Bone Conduction microphone that offers the market's highest voice quality in demanding acoustic environments
- The unique, patented SoftSpring that ensures high usability and comfort
- Elegant and discreet design. INVISIO G5 is considered the market's smallest headset.

### Nextlink's market position

Nextlink conveys an innovative spirit that derives from the development of leading-edge products for professional users. The strategy pursued over the past few years is that this experience from the professional market shall be leveraged to gain entry to the consumer market. Nextlink's focus is primarily on the high end of the consumer market, where price pressure is less evident and gross margins are higher.

Nextlink's customers in the consumer market are primarily found in three different segments: retailers (electronics chains for consumers, mobile phone specialists, etc.), distributors (distributors of consumer electronics) and mobile phone operators.

Ever since wireless Bluetooth technology entered the market, Nextlink has distinguished itself as the manufacturer of the world's smallest and most advanced headsets. INVISIO's new product line is no exception. The new INVISIO line has attracted considerable attention in the media and among potential customers. At the annual Consumer Electronics Show (CES) in Las Vegas in January 2007, INVISIO Q7 and INVISIO G5 received awards.



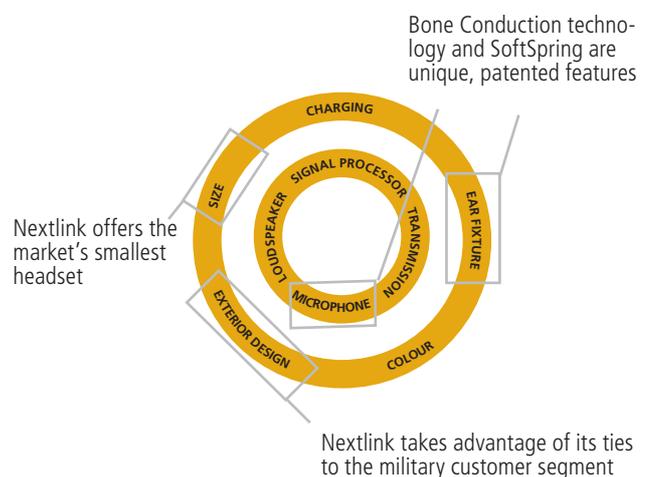
### Competition

Competition in the consumer market for headsets is intense, with many active players. The market leaders are Nokia in Europe and Motorola in the US. The principal players are mobile phone manufacturers (Nokia, Motorola, Samsung and SonyEricsson), headset specialists (Plantronics, GN Store Nord and Logitech) and a variety of smaller manufacturers with local and regional brands. The number of smaller players declined significantly during 2006, due to general price erosion and competition. Competition in the headset market is intense, and Nextlink expects the current intensity to continue for the foreseeable future. Differentiation is increasingly important in creating a long-term market position.

### Distribution agreement with RadioShack

In September 2005, Nextlink and RadioShack signed an exclusive global distribution agreement. During 2006, the agreement was renegotiated to a non-exclusive distribution agreement. In the new agreement, RadioShack also pledges to place an order for 75,000 headsets for the consumer market. This order was received in the third quarter

## INVISIO'S FEATURES



of 2006, and delivery of the products is expected to take place during the second quarter of 2007.

The agreement with RadioShack provides Nextlink with an opportunity to expand its sales and distribution network for consumer products.

#### **Outlook for 2007**

During 2006, Nextlink established a sales group that will focus on assuring and supporting global sales. During 2006, Nextlink received major orders from RadioShack (US), Dangaard Telekom (Europe), Brightpoint (US), Brightstar (Latin America) and Infasonics (US).

Nextlink has also made major progress in establishing new contacts with potential customers going into 2007. During 2007, the company's sales efforts will be focused on geographic expansion and the development of distribution channels.

#### **Product development**

Currently, Nextlink's resources are focused on four projects: final deliveries to Samsung and work on the three consumer products AX3, INVISIO G5 and INVISIO Q7.

- The partnership with Samsung was ongoing throughout all of 2006, based on the licensing and development agreement signed by Nextlink and Samsung in January 2006.
- Most of sales during the fourth quarter consisted of Nextlink's simplest model, Nextlink AX3, which is also marketed under the brand VS600 (a brand name owned by RadioShack). Certain modifications of the product are now being made, and the upgraded version of the product will be delivered starting in April 2007.
- Work on the development of INVISIO G5 has been in progress for nearly two years and is now in the very final stages. At present, marketing and sales negotiations are under way with important customers.
- Further development of INVISIO Q7 means that the product launch is planned for the third quarter of 2007.
- Enhancement of INVISIO S20 has been postponed until the second half of 2007, since development resources for INVISIO Q7 and INVISIO G5 been prioritized.

#### **Models**

At present, Nextlink's product portfolio for the consumer market consists of four headsets. In addition to the three headsets marketed under the INVISIO brand, Nextlink launched the Nextlink AX3, a predecessor to the successful Bluespoon AX2. Nextlink AX3 was sold to RadioShack as a private-label product under the name VS600.

#### **INVISIO Q7 – Clear sound regardless of background noise**

INVISIO Q7 employs Bone Conduction technology and is the ultimate headset for use in noisy and windy environments. The headset's functions are controlled using three buttons, and the rechargeable lithium battery provides up to five hours talk time and 300 hours of standby time. The INVISIO Q7 model is fastened to the ear with Nextlink's unique SoftSpring technology, which ensures high usability and comfort.

INVISIO Q7 supports both Bluetooth V1.1 and V1.2 and is compatible with all mobile phones on the market that support Bluetooth.

#### **INVISIO G5 – Remarkably tiny and discreet**

The INVISIO G5 model is a headset distinguished by its size. Designed for discriminating users, it is just 30 mm long and 17 mm wide and weighs only 5.85 grams, making it the market's smallest and lightest headset. Just as with the INVISIO Q7 model, the INVISIO G5 is fitted to the ear using SoftSpring technology for maximum comfort. With its advanced technology, the INVISIO G5 offers up to four hours of talk time and 250 hours of standby time.

The INVISIO G5 is supplied with a specially developed carrying case that not only protects the headset, but also functions as a portable charger. The carrying case includes a battery that is able to charge the headset five times before additional charging via a power connection is required.

#### **INVISIO S20 – Stereo headset with a range up to 100 meters**

INVISIO S20 is a revolutionary wireless stereo headset for both Bluetooth communication and music. The INVISIO S20 is fitted to both ears and around the back of the head. The headset can also be used for VoIP communication and has a line-of-sight range of 100 meters. The INVISIO S20 delivers up to 10 hours of talk time, 13 hours of music streaming and 1250 hours of standby time.

#### **Nextlink AX3 – Easily handled**

Nextlink AX3 is an easily handled and affordable headset with extended talk and standby time. The headset is sold by RadioShack under the brand name VS600 and to other customers as Nextlink AX3. In terms of both design and performance, the AX3 is a new generation of Nextlink's popular Bluespoon AX2. Like all other Nextlink headsets, AX3 is fitted to the ear using SoftSpring technology for maximum comfort.

## **TECHNOLOGY LICENSING AND PRODUCT DEVELOPMENT FOR OEM CUSTOMERS**

### **OEM partnerships/licensing**

Nextlink's product strategy for the OEM market is to market and sell licenses and component solutions. A business development group was established within the company in 2006 to oversee licensing of Nextlink's patents, as well as strengthen existing and develop new OEM partnerships.

### **License and development agreement with Samsung**

In January 2006, a licensing and development agreement was signed with Samsung of Korea. The agreement related to development of a Bluetooth headset for the consumer market based on Nextlink's patent for Bone Conduction microphones. During 2006, the business development group devoted most of its efforts to fulfilling Nextlink's obligations to Samsung. For Nextlink's organization, the opportunity to develop products together with a demanding and experienced purchaser such as Samsung resulted in a significant increase in expertise. Experience and contacts from the Samsung project will be of great value for similar projects in the future.

### **Future industrial partnerships**

During the autumn of 2006, Nextlink had close contacts with mobile phone manufacturers, operators and manufacturers and distributors of mobile phone accessories regarding OEM partnerships and other forms of industrial cooperation. Nextlink's current assessment is that the contacts in progress will result in new contracts during 2007.

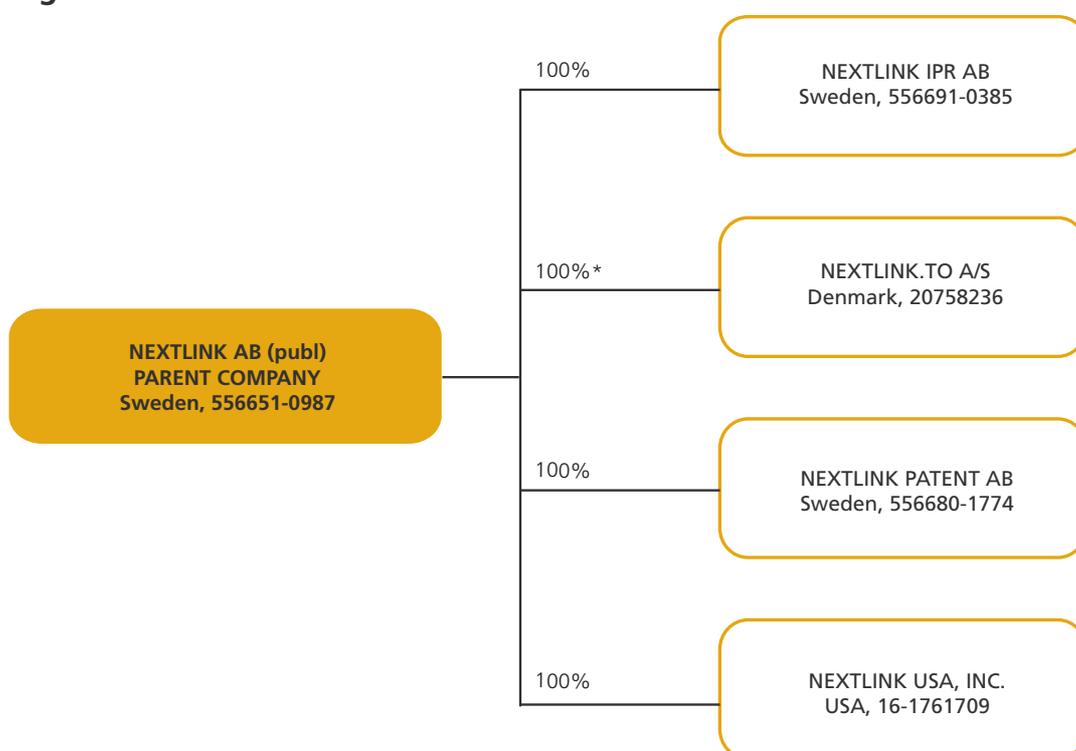
Nextlink's strategy includes actively exploring opportunities to participate in major industrial alliances. Discussions with interested parties have been initiated and will continue during 2007. Nextlink's attractiveness in such discussions is considerable since the company has elected to retain its strategic focus on advanced products for the higher price segment and to capitalize on the value of its patent portfolio.



## LEGAL STRUCTURE

Nextlink.to A/S was founded in 1999. The Parent Company, Nextlink AB, was formed in 2003. In 2005, three new subsidiaries were formed, two Swedish subsidiaries, Nextlink IPR AB and Nextlink Patent AB, to own and manage Nextlink's patents, and a US subsidiary, Nextlink USA Inc, to manage the US market. The company's patents, which were previously owned by Nextlink.to A/S were transferred to Nextlink IPR AB and Nextlink Patent AB during 2005 and 2006.

### Legal structure



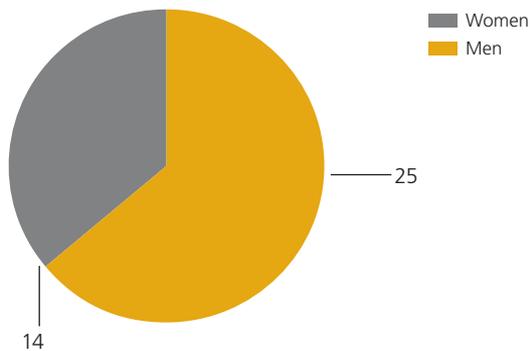
\* Nextlink AB acquired the final minority holdings on March 7, 2007.

## EMPLOYEES AND ORGANIZATION

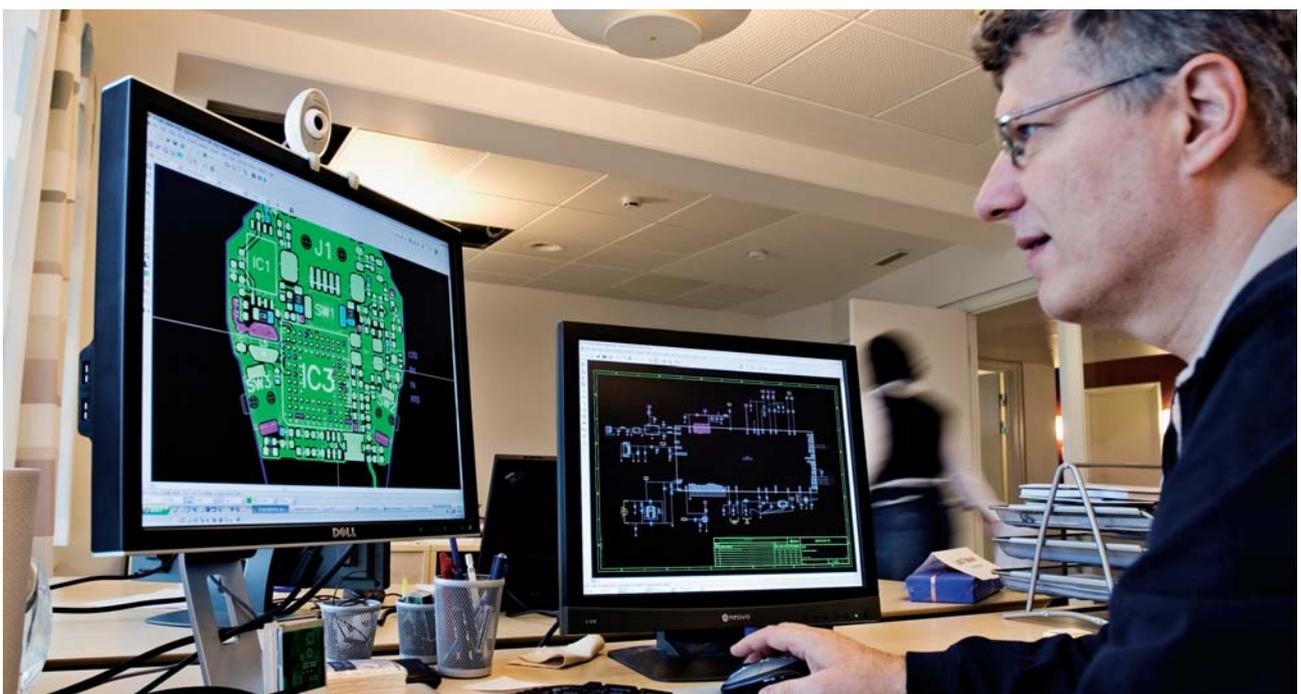
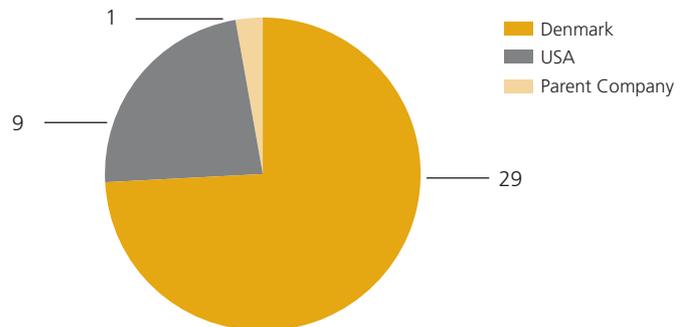
Nextlink's head office is located in Copenhagen, Denmark, where research and development, marketing and business operations are conducted. The company's global sales function for consumer products and professional products are located in the company's US office in Dallas. All manufacturing of consumer products is outsourced to subcontractors. The final assembling of professional products occurs at the office in Copenhagen.

As a phase in its new strategy (refer to section Business concept, vision, mission, goal and strategy), Nextlink strengthened its organization by appointing a new management team during 2006. A number of key personnel were also recruited to fill positions within marketing, logistics and research and development. Consequently, the number of employees in the organization during the year increased from 22 to 39. During 2007, the company intends to supplement the organization with new employees to meet the customers' expectations of Nextlink.

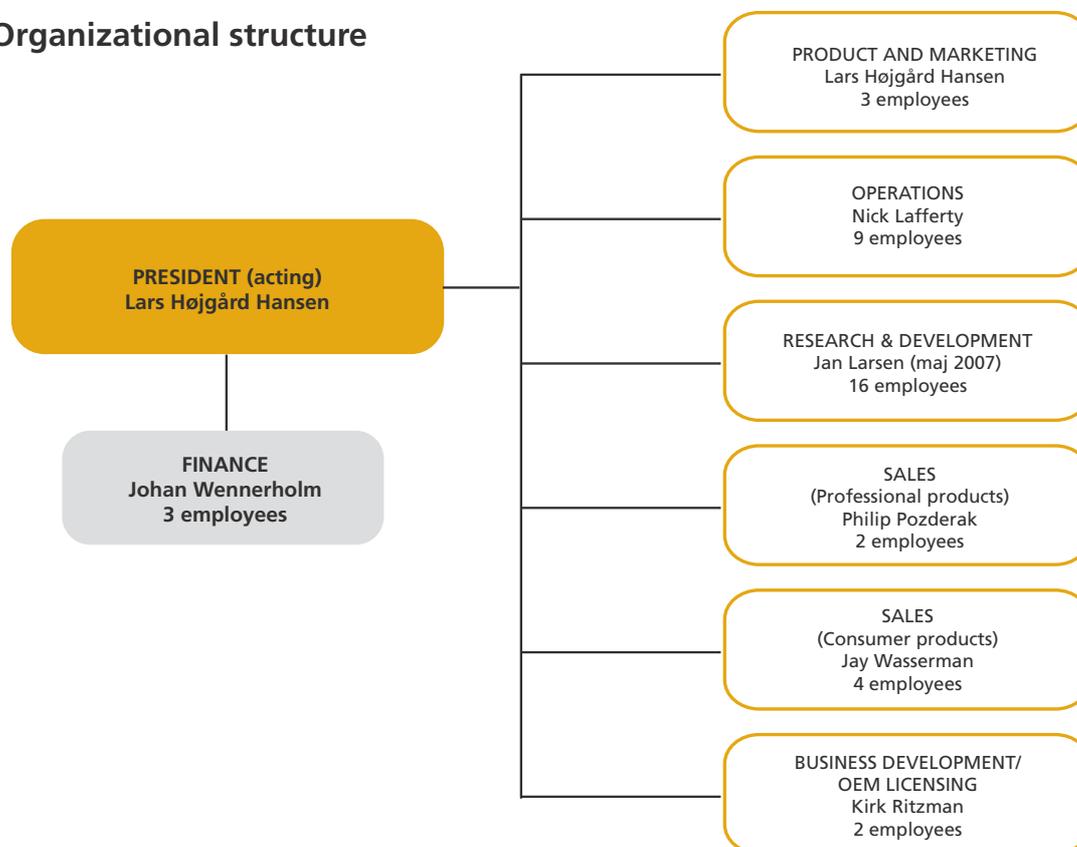
### GENDER DIVISION OF EMPLOYEES, DEC. 31, 2006



### GEOGRAPHIC DIVISION OF EMPLOYEES, DEC. 31, 2006



## Organizational structure



# Board of Director's report

*The Board of Directors and the President of Nextlink AB (publ), Corporate Identification Number 556651-0987, hereby submit their Annual Report and consolidated financial statements for the 2006 fiscal year. The Parent Company is a listed Swedish limited company, registered in Stockholm, Sweden. All amounts in the Board of Director's Report are in MSEK, if not otherwise stated. Information within parentheses refers to the preceding year.*

## **BUSINESS CONCEPT**

Nextlink's business concept is based on developing, marketing and selling headset products for audio communication under its own brand name, as well as for OEM contracting together with industrial players (contract development).

## **OPERATIONS**

Nextlink is a technology company that develops headsets and related products for professional users under the INVISIO Pro brand, and for consumers under the INVISIO brand. During the year, another business area was added, technology licensing and product development for OEM customers.

The core of Nextlink's business originates from the company's patented technology relating to Bone Conduction microphones. Users of INVISIO Pro are found primarily among professional user categories such as military specialist units, security forces, police personnel and other so-called super users.

The company's consumer products comprise advanced Bluetooth headsets. In recent years, the company has launched a number of successful models. Sales increased substantially during 2006, while the foundation has been laid for future growth through development of a new product portfolio. Nextlink holds a number of important patents in its areas of operation on which the developed products are based.

Professional products are primarily sold through a number of specialized distributors. Nextlink cooperates with telecommunication operators, distributors of mobile phones and accessories, and electronic chains for the distribution of consumer products.

Nextlink's head office is located in Copenhagen, Denmark, where research and development, marketing and business operations are conducted. The company's sales division for consumer products, and to a certain extent professional products, is located in the company's US office in Dallas.

The company was formed in Denmark in 1999 and the Parent Company has been listed since mid-2004.

## **SIGNIFICANT EVENTS DURING THE FISCAL YEAR**

### **Consumer products**

Sales of headsets to the consumer market increased during the year by 41 percent to MSEK 34.4 (24.4). The accumulated number of units sold during the year amounted to 173,392 (109,243).

During the second half of the year, the company chose to phase out certain products, and instead invest fully in the launching of the new products Nextlink AX3, INVISIO G5 and INVISIO Q7, which will commence in the spring of 2007.

The exclusive global distribution contract that Nextlink signed with RadioShack at the beginning of 2006 was renegotiated during the second half of the year to a non-exclusive distribution agreement for the US market.

### **Professional products**

The trend for professional products remained stable and Nextlink received its largest order ever within professional products during the year. Sales for the business area increased by 31 percent to MSEK 17.8 (13.6).

A new professional product was launched during the year, INVISIO Pro Digital (the digital version of the existing INVISIO Pro Analog). The newly launched headset has tested very positively among the company's most demanding customers – the military special forces. The accumulated number of units sold during the year totaled 10,282 (6,405).

### **OEM/licensing**

Nextlink's product strategy for the OEM market is to sell and market licenses and component solutions. During 2006, a business development group was established within the company to license Nextlink's patents and develop OEM partnerships.

During 2006, the company's first OEM contract was finalized with Samsung of Korea, the world's third largest mobile phone manufac-

turer, which pertains to the development of an advanced Bluetooth headset for the consumer market. Accumulated sales from OEM/licensing for the year amounted to MSEK 5.4 (0.0). Most of total revenues from the cooperation with Samsung are expected to be in the form of royalties when product manufacturing commences at Samsung.

### **Sales and profit**

Nextlink's accumulated sales for 2006 amounted to MSEK 57.5 (38.0), an increase of 51 percent (99), compared with the preceding year. However, earnings after tax decreased to a loss of MSEK 46.1 (loss: 11.0), which corresponds to a loss of SEK 3.47 (loss: 1.03) per share. Profit for the full year was charged with nonrecurring costs of MSEK 17.7 pertaining to severance pay for the former President, legal costs in conjunction with contract formulation, costs connected to the production of a new strategy, reserves for ongoing disputes and marketing contributions.

### **Organization and personnel**

During the year, the organization was strengthened through a number of significant acquisitions. A new management team was appointed during the year, and a number of key personnel were also recruited for positions within marketing, logistics and research and development. The number of employees in the organization during the year increased from 22 to 39 on December 31, 2006. The company intends to recruit additional personnel in 2007 in order to meet customers' expectations of Nextlink.

### **Environment**

The company does not conduct any operations that are included in the Environmental Code's obligations pertaining to permits or registrations.

### **Research and Development**

Nextlink's core is research and development, which is primarily conducted internally within the company where the focus is on the development of software and hardware for integrated headsets using Bluetooth technology and audio DSP systems. Several engineers are involved in product improvements of the company brand. Nextlink is based on very strong and innovative patents and the company will

continue to strive for new additions to its patent portfolio. Today, the company has three registered patents.

During 2006, Nextlink invested significantly in product development in order to develop products on a larger scale and with even shorter development cycles. This necessitated additional recruitment during 2006, as well as investments in material for developing and testing. Since the recruitment process has taken longer than anticipated, the company is temporarily using external consultants, which it intends to continue to do during 2007, but to a lesser degree than 2006.

During the year, development costs were capitalized for the next generation of consumer products, INVISIO G5 and INVISIO Q7.

### **Patent**

The general patent strategy is to actively apply for patents in the areas of wireless communication and audio technology. Nextlink currently owns and develops three registered patent families.

**Bone Conduction microphone.** The patented system consists of a small ear microphone, which captures vibrations in the user's jaw-bone and converts them into sound.

**Soft Spring ear fixture.** An ergonomically shaped attachment, in the form of a soft rubber spring which, in a unique manner, fastens Nextlink's headset to the ear.

**VoIP terminal.** A patent for a wireless communication terminal for IP telephony (VoIP).

### **EVENTS AFTER THE END OF THE PERIOD**

At the annual trade fair hosted by the Consumer Electronic Association (CES), in Las Vegas, in January 2007, the INVISIO Q7 and INVISIO G5 were awarded the jury's Innovations Honoreé Award within the wireless communication category.

Nextlink has signed a contract with Flextronics pertaining to the production of the company's new consumer products. Nextlink's products are small and technologically advanced. It is important for the company to partner with globally leading production companies such as Flextronics in order to ensure the highest possible quality and reliable delivery of products to customers.

Nextlink's patent for wireless VoIP terminals were approved in the US in January 2007. Some time ago, Nextlink also received a patent within the EU for the same invention. Now that the patent has also

been approved in the US, the possibilities to capitalize on the patent have increased significantly. Resources are now being earmarked to optimally utilize the full potential of the patent.

On February 14, 2007, Andrew Berman resigned as President, primarily because the company needed a head of operations that was stationed in Denmark. Nextlink's current Senior Executive Vice President and Head of Marketing, Lars Højgård Hansen, will be assuming the position of Acting President until the Board of Director to be elected by the 2007 Annual General Meeting has reviewed the President issue.

On February 14, 2007, the Board of Nextlink, subject to approval by the Annual General Meeting on March 20, 2007, proposed the implementation of a rights issue to existing shareholders totaling MSEK 36.6.

In March 2007, Nextlink AB implemented the final transaction pertaining to outstanding minority holdings in the Danish subsidiary Nextlink.to A/S. Nextlink now owns all shares.

## FINANCIAL DEVELOPMENT

### Investments

The Group's accumulated investments in fixed assets during the year amounted to MSEK 14.7 (2.3).

### Parent Company

The Parent Company, Nextlink AB, is a holding company without other operations and all business is conducted by the wholly owned subsidiary Nextlink.to A/S. Parent Company sales totaled MSEK 3.45 (0.0), and a loss after tax of MSEK 17.7 (loss: 0.7) was reported. The equity/assets ratio was 71 percent (97). Cash and cash equivalents amounted to MSEK 10.2 (5.3). Investments totaled MSEK 0.6 (0.3) and pertained primarily to investments in subsidiary shares.

### Liquidity and cash flow

The Group's cash and cash equivalents on December 31, 2006 totaled MSEK 13.2 (19.4). Cash flow from operating activities for the full year amounted to a negative MSEK 34.8 (neg: 17.8).

### Shareholders' equity

Shareholders' equity in the Nextlink Group on December 31, 2006 amounted to MSEK 16.7, corresponding to SEK 1.14 per share. Shareholders' equity after dilution was SEK 1.61 per share. Dilution is calculated based on new capital being added to shareholders' equity

from the options program on the closing date. The options have an exercise price that is lower than the share price, while the number of shares on the closing date will increase with the shares that will be added through this program.

### Dividend

The Board of Directors proposes that no dividend be paid for the 2006 fiscal year.

*For further information about the historical financial trend, refer to the section "Five-year review" on pages 44-45.*

## WORK OF THE BOARD OF DIRECTORS

Nextlink's Board of Directors annually adopts rules of procedure for the Board of Directors and instructions for the President. The rules of procedure include provisions for the duties of the Board of Directors, the division of responsibility, a meeting schedule and definitions of the kind of issues to be brought before the Board of Directors. During 2006, the Board of Directors consisted of four members. After the close of the fiscal year, the number of directors was reduced to three, when Ole Oftedal resigned from the Board in February 2007. The company's Board of Directors held 14 minuted meetings during the year. In addition, the Chairman of the Board maintained ongoing contacts with the company's President. Issues dealt with at the minuted meetings included those set out in the rules of procedure, such as the business status, results and financial position, interim reports and annual financial statements, as well as major capital expenditure decisions. The Board of Directors has its registered office in Stockholm.

## ACCOUNTING PRINCIPLES

As of 2005, Nextlink applies IFRS (International Financial Reporting Standards) in its consolidated financial statements. This is a consequence of an EU regulation that applies to all listed companies in the EU. In the reporting for 2005, comparative data for 2004 and key figures have also been recalculated in accordance with IFRS, with the exception of IAS 32 and 39, which, in accordance with a voluntary exemption in IFRS 1, are applied as of 2005.

## BUSINESS RISKS AND RISK MANAGEMENT

Nextlink's principles for financing and financial risk management include minimizing business and operational risks on an ongoing basis, simultaneously taking advantage of opportunities in the marketplace. For management of the financial risks, the Group works in accordance with a financial policy adopted by Nextlink's Board of Directors. This policy stipulates the financial risk levels that are acceptable to the Group, including foreign exchange exposure and various financing risks, and how risk minimization is to be managed.

Additional comments on risk management are presented in Note 1, page 35.

### Disputes

A dispute is in progress between three former employees and Nextlink.to A/S and Nextlink AB. The dispute concerns option rights. Nextlink.to A/S and Nextlink AB have challenged the claim since the Companies believe that the former employees have no rights to the options since their employment had been terminated. Nextlink estimates that the prospects of success in the dispute are favorable and has not reserved funds for the matter.

Former supplier Mitsumi Electronics Europe GmbH (Mitsumi) has sued Nextlink.to A/S in a German court. Mitsumi's claims against Nextlink.to A/S amount to USD 414,830 and pertain to delivered but unpaid products. Nextlink.to A/S has challenged the payment based on its opinion that Mitsumi Electric Co. Ltd Tokyo Japan, with which Nextlink.to A/S initiated cooperation for the manufacture of Nextlink.to A/S headset, had copied Nextlink.to A/S's products and sold them to customers. Subsequently, Nextlink.to A/S has submitted a counterclaim against Mitsumi pertaining to royalty fees from the sales to customers. Recently, Nextlink.to A/S won a certain degree of success in the process when a jurisdiction objection was granted in the first court of instance pertaining to the issue of the country in which the proceedings would take place. The decision was appealed by the counterparty and the dispute has yet to be heard. Since the dispute could continue for several years and the outcome is uncertain Nextlink has reserved an amount of approximately MSEK 2.6 for the matter.

Besides the above, Nextlink is not involved in any significant disputes and the Nextlink Board does not have knowledge of any circumstances that could cause disputes of a significant nature for Nextlink.

## PROPOSED PROFIT ALLOCATION

PARENT COMPANY	(MSEK)
The following amount is available to the Annual General Meeting	
Accumulated loss	-1,435
New share issue	27,757
Result for the year	-17,665
	<b>8,657</b>
To be appropriated as follows:	
To be carried forward	8,657
	<b>8,657</b>

## OUTLOOK FOR 2007

Nextlink experienced very strong growth for its professional products in 2006. Nextlink's plan is to maintain its strategic position in the high-end segment, even if this will be at the expense of lower sales volumes.

During the latter part of 2006, Nextlink had close contacts with mobile phone manufacturers, operators and manufacturers and distributors of mobile phones accessories relating to OEM partnerships and other industrial cooperation. It is Nextlink's current opinion that the ongoing contacts will result in new contracts in 2007.

During the second half of 2006, the company chose to phase out certain products and instead invest fully in the launching of the new products INVISIO G5 and INVISIO Q7, beginning in the spring of 2007. Furthermore, the upgraded version of Nextlink AX3 will be available for delivery in April 2007.

The cooperation with Samsung pertaining to the development of an advanced headset has continued throughout 2006 and is now in its final phase.

# Consolidated income statement

KSEK	Note	2006	2005
	1		
OPERATING REVENUES	5		
Net sales of products sold	2, 3	52,158	38,028
Net sales of projects	2, 3	5,359	–
<b>TOTAL OPERATING REVENUES</b>		<b>57,517</b>	<b>38,028</b>
Raw materials and consumables for products sold		–34,293	–28,972
<b>GROSS PROFIT</b>		<b>23,224</b>	<b>9,056</b>
OPERATING EXPENSES	5		
Raw materials and consumables		–7,320	–
Other external costs	6, 7	–36,185	–8,373
Personnel costs	8, 9	–21,491	–9,604
Depreciation and impairment	11, 12	–1,957	–1,255
<b>TOTAL OPERATING EXPENSES</b>		<b>–66,953</b>	<b>–19,232</b>
<b>OPERATING LOSS</b>		<b>–43,729</b>	<b>–10,176</b>
RESULT FROM FINANCIAL INVESTMENTS			
Other interest income and similar income-statement items		288	41
Other interest expense and similar income-statement items		–2,702	–828
<b>TOTAL NET FINANCIAL ITEMS</b>		<b>–2,414</b>	<b>–787</b>
Loss after financial items but before taxes		–46,143	–10,963
Tax on profit for the year	10	–	–
<b>NET LOSS</b>		<b>–46,143</b>	<b>–10,963</b>
Net loss for minority shareholders		–	121
Net loss for Parent Company shareholders		–46,143	–11,084
Loss per share (SEK)		–3,47	–1,03
Loss per share after dilution (SEK)	20	–3,47	–1,03
Number of shares outstanding (thousands)		14,663	12,797
Average number of shares outstanding (thousands)		13,290	10,757
Average number of shares outstanding after dilution (thousands)		13,623	11,331

# Consolidated cash flow statement

KSEK	Note	2006	2005
	1		
<b>Operating activities</b>			
Loss before taxes		-46,143	-10,963
Adjustment for items not included in cash flow	4	2,131	1,498
		<b>-44,012</b>	<b>-9,465</b>
<b>Cash flow from operating activities before changes in working capital</b>			
Change in inventories		-5,436	-3,872
Change in operating receivables		-893	-6,715
Change in operating liabilities		15,548	2,250
<b>CASH FLOW FROM CHANGES IN WORKING CAPITAL</b>		<b>9,219</b>	<b>-8,337</b>
		<b>-34,793</b>	<b>-17,802</b>
<b>Cash flow from operating activities</b>			
<b>Investing activities</b>			
Capitalization of internal development costs		-11,149	-
Acquisition of tangible fixed assets		-2,873	-2,249
Acquisition of financial fixed assets		-631	-69
Sale of tangible fixed assets		630	312
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		<b>-14,023</b>	<b>-2,006</b>
<b>Financing activities</b>			
New share issues		29,281	28,946
Loans raised		13,287	2,075
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		<b>42,568</b>	<b>31,021</b>
<b>CASH FLOW FOR THE YEAR</b>		<b>-6,248</b>	<b>11,213</b>
Cash and cash equivalents at beginning of period		19,419	8,206
Cash and cash equivalents end of period		13,171	19,419
Additional cash flow statement disclosures			
Interest income during the year		288	41
Interest expense during the year		-2,702	-521

# Consolidated balance sheet

KSEK	Note	2006	2005
<b>ASSETS</b>	1		
<b>Fixed assets</b>			
Capitalized expenses for development work, etc.	11	12,248	2,168
Equipment, tools, fixtures and fittings	12	3,654	2,245
Other long-term receivables	13	889	216
<b>Total fixed assets</b>		<b>16,791</b>	<b>4,629</b>
<b>Current assets</b>			
Inventories		13,709	8,273
Accounts receivable		8,271	7,964
Other receivables		3,022	3,158
Accrued income and prepaid expenses	14	739	17
Cash and cash equivalents		13,171	19,419
<b>Total fixed assets</b>		<b>38,912</b>	<b>38,831</b>
<b>TOTAL ASSETS</b>		<b>55,703</b>	<b>43,460</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>	1		
<b>Shareholders' equity</b>	17		
Share capital		14,663	12,797
Other capital contributions		63,649	36,078
Other reserves		918	648
Result brought forward including result for the year		-62,542	-16,399
Shareholders' equity attributable to Parent Company shareholders		16,688	33,124
Minority interest		0	156
<b>Total shareholders' equity</b>		<b>16,688</b>	<b>33,280</b>
<b>Current liabilities</b>			
Liabilities to credit institutions		17,734	4,447
Accounts payable		13,641	4,849
Other liabilities		535	2
Accrued expenses and prepaid income	16, 19	7,105	882
<b>Total current liabilities</b>		<b>39,015</b>	<b>10,180</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>55,703</b>	<b>43,460</b>
Pledged assets	18	2,965	8,014
Contingent liabilities	18	none	none

# Changes in shareholders' equity

## – Group

KSEK, NOTE 1	SHARE CAPITAL	OTHER CAPITAL CONTRIBUTIONS	OTHER RESERVES	RESULT BROUGHT FORWARD	MINORITY SHAREHOLDERS' INTEREST	TOTAL SHAREHOLDERS' EQUITY
Group's formation	100	–	–	–	–	100
Effect of new accounting policies IAS 1, Minority interest	–	–	–	–	108	108
New share issues	10,564	14,107	–	–	–	24,671
Cost of new share issues	–	–4,842	–	–	–	–4,842
Translation difference	–	–	39	–	–	39
Net loss for the year	–	–	–	–5,315	–73	–5,388
<b>Amount at end of 2004</b>	<b>10,664</b>	<b>9,265</b>	<b>39</b>	<b>–5,315</b>	<b>35</b>	<b>14,688</b>
Amount at beginning of 2005	10,664	9,265	39	–5,315	35	14,688
New share issues	2,133	30,635	–	–	–	32,768
Cost of new share issues	–	–3,822	–	–	–	–3,822
Translation difference	–	–	609	–	–	609
Net loss for the year	–	–	–	–11,084	121	–10,963
<b>Amount at end of 2005</b>	<b>12,797</b>	<b>36,078</b>	<b>648</b>	<b>–16,399</b>	<b>156</b>	<b>33,280</b>
Amount at beginning of 2006	12,797	36,078	648	–16,399	156	33,280
New share issues	1,866	29,680	–	–	–156	31,390
Cost of new share issues	–	–2,109	–	–	–	–2,109
Translation difference	–	–	270	–	–	270
Net loss for the year	–	–	–	–46,143	–	–46,143
<b>Amount at end of 2006</b>	<b>14,663</b>	<b>63,649</b>	<b>918</b>	<b>–62,542</b>	<b>–</b>	<b>16,688</b>

# Parent Company income statement

KSEK	Note	2006	2005
	1		
OPERATING REVENUES	5	3,450	–
OPERATING EXPENSES			
Other external costs	5, 6, 7	–16,377	–
Personnel costs	8, 9	–5,411	–
Depreciation and impairment	12	–6	–912
<b>TOTAL OPERATING EXPENSES</b>		<b>–21,794</b>	<b>–912</b>
<b>Operating loss</b>		<b>–18,344</b>	<b>–912</b>
RESULT FROM FINANCIAL INVESTMENTS			
Other interest income and similar income-statement items		1,110	393
Other interest expense and similar income-statement items		–431	–201
<b>TOTAL NET FINANCIAL ITEMS</b>		<b>679</b>	<b>192</b>
Loss after financial items but before taxes		–17,665	–720
Tax on profit for the year	10	–	–
<b>NET LOSS</b>		<b>–17,665</b>	<b>–720</b>

# Parent Company cash flow statement

KSEK	Note	2006	2005
	1		
<b>OPERATING ACTIVITIES</b>			
Loss before taxes		-17,665	-720
Adjustment for items not included in cash flow	4	6	-
<b>Cash flow from operating activities before changes in working capital</b>		<b>-17,659</b>	<b>-720</b>
Change in operating receivables		-28,724	-23,551
Change in operating liabilities		7,304	985
<b>CASH FLOW FROM CHANGES IN WORKING CAPITAL</b>		<b>-21,420</b>	<b>-22,566</b>
<b>Cash flow from operating activities</b>		<b>-39,079</b>	<b>-23,286</b>
<b>Investing activities</b>			
Acquisition of subsidiaries	15	-610	-252
Acquisition of tangible fixed assets		-25	-
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		<b>-635</b>	<b>-252</b>
<b>Financing activities</b>			
New share issues		29,623	28,320
Loans raised		15,000	-
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		<b>44,623</b>	<b>28,320</b>
<b>CASH FLOW FOR THE YEAR</b>		<b>4,909</b>	<b>4,782</b>
Cash and cash equivalents at beginning of period		5,278	496
Cash and cash equivalents end of period		10,187	5,278
<b>Additional cash flow statement disclosures</b>			
Interest income during the year		1,110	393
Interest expense during the year		-431	-201

# Parent Company balance sheet

KSEK	Note	2006	2005
<b>ASSETS</b>	1		
<b>Fixed assets</b>			
Equipment	12	19	–
Shares in subsidiaries	15	9,526	8,916
<b>Total fixed assets</b>		<b>9,545</b>	<b>8,916</b>
<b>Current receivables</b>			
Receivable from Group companies		62,632	32,666
Other receivables		–	1,242
<b>Total current receivables</b>		<b>62,632</b>	<b>33,908</b>
<b>Cash and cash equivalents</b>		10,187	5,278
<b>Total fixed assets</b>		<b>72,819</b>	<b>39,186</b>
<b>TOTAL ASSETS</b>		<b>82,364</b>	<b>48,102</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>	1		
<b>Shareholders' equity</b>	17		
<b>Restricted shareholders' equity</b>			
Share capital		14,663	12,797
Statutory reserves		35,452	35,452
<b>Total restricted shareholders' equity</b>		<b>50,115</b>	<b>48,249</b>
<b>Unrestricted shareholders' equity</b>			
Premium reserve		27,757	–
Result brought forward		–1,435	–715
Loss for the year		–17,665	–720
<b>Total unrestricted shareholders' equity</b>		<b>8,657</b>	<b>–1,435</b>
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>58,772</b>	<b>46,814</b>
<b>Current liabilities</b>			
Liabilities to credit institutions		15,000	–
Accounts payable		690	1,198
Liabilities to Group companies		5,536	–
Other liabilities		549	2
Accrued expenses and prepaid income	16	1,817	88
<b>Total current liabilities</b>		<b>23,592</b>	<b>1,288</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>82,364</b>	<b>48,102</b>
Pledged assets	18	780	50
Contingent liabilities	18	none	none

# Changes in shareholders' equity

## – Parent Company

KSEK, NOTE 1	SHARE CAPITAL	STATUTORY RESERVES	PREMIUM RESERVES	RESULT BROUGHT FORWARD	NET LOSS FOR THE YEAR	TOTAL SHARE- HOLDERS' EQUITY
Company's formation	100	–	–	–	–	100
New share issues	10,564	14,107	–	–	–	24,671
Cost of new share issues	–	–	–4,842	–	–	–4,842
Net loss for the year	–	–	–	–	–715	–715
<b>Amount at end of 2004</b>	<b>10,664</b>	<b>–</b>	<b>9,265</b>	<b>–</b>	<b>–715</b>	<b>19,214</b>
Amount at beginning of 2005	10,664	–	9,265	–	–715	19,214
Preceding year's loss brought forward	–	–	–	–715	715	–
New share issues	2,133	–	30,009	–	–	32,142
Cost of new share issues	–	–	–3,822	–	–	–3,822
Transfer to statutory reserves	–	35,452	–35,452	–	–	–
Net loss for the year	–	–	–	–	–720	–720
<b>Amount at end of 2005</b>	<b>12,797</b>	<b>35,452</b>	<b>–</b>	<b>–715</b>	<b>–720</b>	<b>46,814</b>
Amount at beginning of 2006	12,797	35,452	–	–715	–720	46,814
Preceding year's loss brought forward	–	–	–	–720	720	–
New share issues	1,866	–	29,866	–	–	31,732
Cost of new share issues	–	–	–2,109	–	–	–2,109
Net loss for the year	–	–	–	–	–17,665	–17,665
<b>Amount at end of 2006</b>	<b>14,663</b>	<b>35,452</b>	<b>27,757</b>	<b>–1,435</b>	<b>–17,665</b>	<b>58,772</b>

# Notes

## Note 1 Accounting and valuation principles

### General information

The Nextlink Group consists of the wholly owned subsidiaries Nextlink.to A/S, Nextlink USA Inc., Nextlink IPR AB and Nextlink Patent AB. The Parent Company has its registered office in Stockholm, Sweden. The company's operations comprise product development, marketing and sales of headset products. Nextlink AB (publ) is currently listed on the First North marketplace.

### Statement on compliance with regulatory framework applied

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). Since the Parent Company is a company in the EU, only IFRS approved by the EU are applied. In addition, the consolidated financial statements are prepared in accordance with Swedish law by applying recommendation RR 30 (Supplementary Accounting Regulations for Corporate Groups) issued by the Swedish Financial Accounting Standards Council. The Parent Company's annual accounts are prepared in accordance with Swedish law and by applying recommendation RR 32 (Accounting for Legal Entities) issued by the Swedish Financial Accounting Standards Council. This means that the IFRS measurement and disclosure rules are applied subject to the deviations shown under the section Parent Company accounting principles. The conclusion is that the IFRS standards and interpretations published in 2006 had yet to take effect on December 31, 2006 and, thus, will not have a material impact on the Group's financial reports.

### Basis for preparation of the report

The consolidated financial statements are based on historical acquisition values, except in the case of derivative financial instruments, financial assets available for sale and financial assets recognized at fair value via the income statement. The carrying amount of hedged assets and liabilities that would normally be recognized at acquisition value has been adjusted for changes in fair value attributable to the hedged risks (fair value hedging). Unless otherwise specifically stated, all amounts are specified in thousands of Swedish kronor (SEK).

### Basis for consolidation

The consolidated financial statements include the Parent Company, Nextlink AB (publ), and its subsidiaries. The financial reports for Nextlink AB and subsidiaries included in the consolidated financial statements all refer to the same period and were prepared in accordance with the accounting policies applied by the Group. All intra-Group transactions, revenues and costs, profit or losses arising in transactions among companies included in the consolidated financial statements are eliminated in their entirety. Subsidiaries are included in the consolidated financial statements from the time of acquisition, which is the date when the Parent Company gained a controlling influence, and are included in the consolidated financial statements until the date when such controlling influence ceases to exist.

### Foreign subsidiaries

Items included in the financial reports for the various Group units are valued in the currency used in the economic environment in which each unit is primarily active (functional currency). The reporting currency in the consolidated accounts is the Parent Company's functional currency, which is SEK. Earnings and financial position for all Group companies with a functional currency other than the reporting currency are recalculated as follows: assets and liabilities for each of the balance sheets are translated at the exchange rate applying on the balance sheet date, while revenues and costs for each of the income statements are translated at the average rate during the year. All exchange rate differences thus arising are reported separately under equity.

In translating the Danish subsidiary the following rates were used: DKK/SEK 1.24 for the income statement and DKK/SEK 1.21 for the balance sheet. In translating the US subsidiary the following rates were used: USD/SEK 7.38 for the income statement and USD/SEK 6.87 for the balance sheet.

### Classification

Fixed assets, long-term liabilities and provisions consist essentially of amounts expected to be recovered or paid after more than twelve months from the closing date. Current assets and liabilities consist essentially of amounts expected to be recovered or paid within twelve months of the closing date. Any departure from this principle is reported in a note to the respective balance sheet item.

### Revenue recognition

The Group's net sales derive from sales of goods. Sales of goods are booked on delivery to the customer in accordance with the terms of sale. This means that revenue is recognized when significant risks and rewards associated with the goods have been transferred to the buyer and the seller no longer has control over the goods. Sales are reported net after deduction of value added tax, discounts, and exchange rate differences, in the case of sales in foreign currency. Intra-group sales are eliminated from the consolidated financial statements. Project revenues are recognized in accordance with the terms of each contract as soon as it is probable that the economic benefits will accrue to the company.

### Taxes

The related tax for items recognized in the income statement is illustrated in the aforementioned statement. For items booked directly against equity, any taxes are also booked directly against equity. Deferred taxes are calculated in accordance with the balance sheet method for all significant temporary differences. A temporary difference exists when the carrying amount of an asset or liability differs from the value for tax purposes. Such differences may arise in cases when an asset is revalued or when the applied accounting principles differ between an individual Group company and the consolidated accounts.

### Impairment losses

The carrying amounts of the Group's assets, with the exception of financial assets that are reported at fair value with changes in value recognized in the income statement in accordance with IAS 39, are impairment tested on each balance sheet date. Where any such indication exists, the recoverable amount of the asset is calculated. An impairment loss is reported when the carrying amount of an asset exceeds the recoverable amount. Impairment is charged against the income statement.

### Calculation of recoverable amount

The recoverable amount of assets classed as loan receivables and accounts receivable reported at accrued acquisition value is calculated as the present value of future cash flows discounted at the effective rate of interest prevailing when the asset was first reported. Assets with a short maturity are not discounted.

The recoverable amount of other assets is the higher of fair value, less selling costs, and the value in use. When calculating the value in use, future cash flows are discounted using a discount factor that takes risk-free interest into account, as well as the risk associated with the specific asset. For an asset that does not generate cash flow that is significantly independent of other assets, a common recoverable amount is calculated for the cash-generating unit to which the asset belongs.

### Critical judgments and estimates

Management makes estimates and assumptions about the future that affect carrying amounts. The consequence is that carrying amounts in these cases seldom agree with the fair values. The estimates and assumptions that involve a significant risk for substantial adjustments during the following fiscal year are attributable to capitalized development costs.

As soon as there is an indication of impairment, capitalized development costs are tested in accordance with the above accounting principle. Intangible fixed assets are tested annually for impairment, even if there is no indication of impairment. The recoverable amount is established by calculating the value in use. In performing these calculations, certain estimates must be used and these are described in Note 11.

### Reversal of impairment losses

Impairment losses are reversed if a later increase in the recoverable amount can objectively be attributed to an event that has occurred after the impairment loss was recognized and when changes have occurred in the assumptions that constituted a basis for calculating the recoverable amount.

An impairment loss is reversed only to the extent the carrying amount of the asset after reversal does not exceed the carrying amount that the asset would have had if no impairment loss had been recognized, taking the depreciation that would then have been recognized into account.

### Financial instruments

Financial instruments are valued and recognized in the consolidated accounts in accordance with the rules in IAS 39 Financial Instruments: Recognition and Measurement. Financial instruments are initially reported at acquisition value

corresponding to the instrument's fair value plus transaction costs for receivables and liabilities valued at accrued acquisition value. Other financial assets and liabilities are initially valued excluding transaction costs. A financial asset or a financial liability is recognized in the balance sheet when the company becomes a party to the contractual terms and conditions of the instrument. Accounts receivable are recognized in the balance sheet when an invoice has been issued. Liabilities are recognized when the counterparty has performed and a contractual obligation to pay exists, even when an invoice has not yet been received. Accounts payable are recognized when an invoice has been received. A financial asset is eliminated from the balance sheet when the rights according to the agreement have been realized, expired or when the company loses control over them. The same is true for part of a financial asset. A financial liability is eliminated from the balance sheet when the obligation in the agreement is fulfilled or has otherwise been extinguished. The same is true for part of a financial liability. Acquisition and sale of financial assets are recognized on the transaction date, which is the date when the company pledges to acquire or to sell the asset.

#### Research and development costs

Nextlink applies IAS 38 Intangible Assets. In accordance with this accounting recommendation, expenditure for development of new products, production systems and software should be recognized as intangible assets where such expenditure with a high degree of probability will lead to future economic benefits for the company. The acquisition value for such an asset should be amortized over its estimated useful life.

#### Tangible fixed assets / depreciation

Assets are reported at acquisition cost, less depreciation according to plan based on an assessment of the useful life of the assets.

#### Depreciation and amortization

Depreciation and amortization according to plan have been reported as follows:

Intangible assets	20-50%
Equipment, tools, fixtures and fittings	20%

#### Inventories

Inventories are valued using the first-in, first-out principle at the lower of acquisition value and net realizable value on the closing date.

#### Receivables

Receivables are recognized at the amounts expected to be collected.

#### Cash and cash equivalents

Cash and cash equivalents consist solely of bank deposits.

#### Segment reporting

An operating unit is a group of assets and operations that provides products and services that are exposed to risks and opportunities that differ from those applying to other operating units. Geographic areas supply products and services in an economic environment that is exposed to risks and opportunities that differ from those applying in other economic environments. Assets, liabilities and investments cannot be distributed in a reasonable and reliable manner by segment, since operations are totally integrated with respect to the technical platform.

#### Receivables and liabilities in foreign currency

In individual companies, receivables, liabilities and provisions in foreign currency are translated using the exchange rate applying on the balance sheet date. When the exchange rate has been hedged by a forward contract, the forward rate is used.

#### Borrowing costs

Borrowing costs are charged against earnings in the period to which they refer, irrespective of how the borrowed funds are used.

#### Employee benefits

Nextlink Patent AB and Nextlink IPR AB have no employees. Employees in other companies receive benefits in the functional currency for each company. There are no defined-benefit pension plans. The subsidiaries do not pay any pension premiums for their employees.

#### Leasing

Fixed assets held via leases are classified in accordance with the economic purpose of the lease contract. Leased items held under finance leases are recognized as fixed assets and future leasing fees are recognized as interest-bearing liabilities. For leased items classified as operating leases, the leasing cost is recognized as an operating expense in the income statement.

#### Cash flow statement

The cash flow statement is prepared in accordance with IAS 7 using the indirect method. This means that cash flow has been adjusted for transactions that do not result in cash receipts or disbursements during the period. Cash and cash equivalents include cash and bank balances.

#### Related party disclosures

The following transactions took place during the year between Nextlink AB and Lage Jonason AB, a company wholly owned by one of the company's largest owners, Lage Jonason. Nextlink AB raised loans from Lage Jonason AB during the year totaling to SEK 4,375,741. On the closing date, these loans had been repaid in full with interest amounting to SEK 38,069. The company also received two invoices from Lage Jonason AB, one for the Chairman's out-of-pocket expenses and one for a requested analysis, together totaling SEK 1,345,000. In conjunction with Nextlink raising a bank loan of MSEK 15, Lage Jonason issued a limited guarantee of MSEK 7.5 without charge. The Chairman of the Board, Christian Paulsson, is employed by Lage Jonason AB.

Other closely related parties include the Board of Directors and management and with these individuals there have been no transactions other than those reported in Note 9, Remuneration to senior executives.

#### Financial risks

Principles for financing and financial risk management:

#### Parent Company

The Parent Company should normally have no debt. Currency risks in foreign shareholdings are not normally hedged.

#### Subsidiaries

Subsidiaries take decision on their financial strategy independently via their respective Boards. The Boards continuously assess the need to hedge transaction exposure via forward contracts.

#### Commercial currency exposure

In the Nextlink Group, commercial currency exposure is mainly related to USD for purchases from suppliers in Asia. Revenues are mainly generated in DKK, EUR and USD. At present, there are no currency hedges.

#### Interest rate risk

The Group's borrowing primarily consists of short-term loans, overdraft facilities and invoice factoring. All interest rates are variable. The Group's net debt (cash and cash equivalents less interest-bearing liabilities) amounted to KSEK -4,563 (14,972) at year-end.

#### Financial instruments

A financial instrument is every asset or liability with a contracted right or obligation to receive or disburse cash or another financial asset. Financial receivables and liabilities are reported at acquisition value. In those cases where the fair value or the accrued acquisition value differs from the acquisition value, an adjustment is made to the lower value.

#### Transition to IFRS

As of 2005, the Group reports according to the International Financial Reporting Standards (IFRS), according to the requirements established by the European Commission (EC). Comparison figures for 2004 were restated in accordance with that standard. The effects in the income statement and balance sheet for Nextlink were entirely attributable to the change in reporting of minority interests.

The company's financial reports were affected by changed requirements concerning classification and disclosure according to IFRS. The changes also affected key data. Key data for 2004 were recalculated.

**Note 2 Revenues distributed by revenue type**

Group	2006	2005
Product sales	52,158	38,028
Project revenues	5,359	–
<b>Total</b>	<b>57,517</b>	<b>38,028</b>

**Note 3.1 Revenues distributed by product segment**

Group	2006	2005
Consumer products	34,403	24,394
Professional products	17,755	13,634
Projects	5,359	–
<b>Total</b>	<b>57,517</b>	<b>38,028</b>

**Note 3.2 Revenues distributed by geographic segment**

Group	2006	2005
Europe	18,077	16,388
North America	29,669	18,653
Rest of world	9,771	2,987
<b>Total</b>	<b>57,517</b>	<b>38,028</b>

**Note 4 Items not included in cash flow**

Group	2006	2005
Depreciation and amortization	1,957	1,255
Translation differences	270	444
Capital gains/losses	–96	–201
<b>Total</b>	<b>2,131</b>	<b>1,498</b>

Parent Company	2006	2005
Depreciation	6	–
<b>Total</b>	<b>6</b>	<b>–</b>

**Note 5 Intra-Group transactions**

Intra-Group transactions  
Of the Parent Company's invoicing, KSEK 3,500 is attributable to subsidiaries. Invoicing from subsidiaries to the Parent Company totaled KSEK 5,500. In 2004 and 2005, there were no intra-Group transactions.

**Note 6 Remuneration to auditors**

Group	2006	2005
<b>Audit</b>		
SET Revisionsbyrå	149	76
Palsgaard & Hansen	210	224
MCG LLP	32	–

**Other assignments**

SET Revisionsbyrå	–	48
MCG LLP	3	–

<b>Total</b>	<b>394</b>	<b>348</b>
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**Parent Company**

Audit	2006	2005
SET Revisionsbyrå	149	76

**Other assignments**

SET Revisionsbyrå	–	48
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<b>Total</b>	<b>149</b>	<b>124</b>
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**Note 7 Rental and leasing contracts**

Rental and leasing contracts  
Rental and leasing fees for all rental and leasing contracts amounted to KSEK 1,100 (500) during the year. Contracted future rental and leasing fees amounted to KSEK 6,100 (800) and will fall due over the coming four years in amounts of KSEK 1,900 for 2007, KSEK 1,900 for 2008, KSEK 1,500 for 2009 and KSEK 800 for 2010.

The Parent Company's rental and leasing fees amounted to KSEK 123 (0) during the year. The Group has no financial leasing contracts.

**Note 8 Personnel**

Average number of employees	2006		2005	
	No. of employees	Of whom men	No. of employees	Of whom men
Parent Company	2	1	–	–
Denmark	26	16	15	11
US	8	5	–	–
<b>Total</b>	<b>36</b>	<b>22</b>	<b>15</b>	<b>11</b>

Proportion of women in senior positions, %	2006		2005	
	Board of Directors	Other positions	Board of Directors	Other positions
Parent Company	–	–	–	–
Group	–	–	–	25
<b>Total</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>25</b>

**Salaries and other remuneration**

Salaries and other remuneration	2006	2005
Parent Company	3,380	–
Subsidiaries	15,589	9,519
<b>Group total</b>	<b>18,969</b>	<b>9,519</b>

Social security costs, excl. pension costs	2006	2005
Parent Company	1,277	–
Subsidiaries	491	85
<b>Group total</b>	<b>1,768</b>	<b>85</b>

Pension costs	2006	2005
Parent Company	754	–
Subsidiaries	–	–
<b>Group total</b>	<b>754</b>	<b>–</b>

Total personnel costs	2006	2005
	<b>21,491</b>	<b>9,604</b>

**Sickness absence**

Since Nextlink AB has less than 10 employees, no information regarding sickness absence is reported.

**Pensions**

None of the subsidiaries has any defined-benefit pension plan for its employees.

**Note 9 Remuneration to senior executives**

Board of Directors 2006	Fees	Pension	Other remuneration	Total
Chairman of the Board	200	–	–	200
Other Board members	300	–	–	300
<b>Total</b>	<b>500</b>	<b>–</b>	<b>–</b>	<b>500</b>

Board of Directors 2005	Fees	Pension	Other remuneration	Total
Chairman of the Board	–	–	–	–
Other Board members	–	–	–	–
<b>Total</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>

Management 2006	Salary	Pension	Other remuneration	Total
Andrew Berman (President)	1,887	–	103	1,990
Other management	3,396	104	17	3,517
<b>Total</b>	<b>5,283</b>	<b>104</b>	<b>120</b>	<b>5,507</b>

Management 2005	Salary	Pension	Other remuneration	Total
Lars Stenfeldt (President)	1,196	–	114	1,310
Other management	303	–	18	321
<b>Total</b>	<b>1,499</b>	<b>–</b>	<b>132</b>	<b>1,631</b>

## Remuneration paid in 2006 to senior executives whose employment ended

	Salary	Pension	Other remuneration	Total
Lars Stenfeldt (President)	795	–	311	1,106
Fredrik Olsson (President)	1,553	529	–	2,082
Others	1,177	121	208	–1,506
<b>Total</b>	<b>3,525</b>	<b>650</b>	<b>519</b>	<b>4,694</b>

Fees were paid to Board members according to resolutions by the Annual General Meeting. They were paid from the Parent Company. No Board fees or other remuneration except out-of-pocket expenses were paid for work in subsidiaries.

The former Board member Birger Flygare received remuneration for extra work in conjunction with replacement of the President during the months of January and February. He received KSEK 132 from the Parent Company.

Fredrik Olsson was President from January 30 until May 2. Andrew Berman took over as President on May 3 and resigned from the position on February 14, 2007. Andrew Berman will remain at the Group's disposal for six months from that date, during which time he will receive the same monthly salary as previously. Andrew Berman received his salary from the US subsidiary.

In conjunction with the appointment of Senior Executive Vice President and Head of Marketing Lars Højgård Hansen as acting President, his salary was increased somewhat and thereafter amounted to KDKK 1,800 plus a pension premium of 20% of fixed salary. According to Danish law, salary includes social security fees.

## Note 10 Taxes

Group	2006	2005
<b>Tax on profit/loss for the year</b>		
Current taxes	–	–
Deferred tax	–	–
<b>Total</b>	<b>–</b>	<b>–</b>
<b>Reconciliation of effective taxes</b>		
Profit/loss before tax	–46,143	–10,963
Tax at current rate of 28%	12,920	3,069
Increase in loss carryforwards without corresponding capitalization of deferred tax	–46,143	–3,069
<b>Reported effective taxes</b>	<b>–</b>	<b>–</b>

In all Group companies, there are accumulated loss carryforwards, all of which are without time limitations can therefore be used to reduce taxes on future profits. Since it is uncertain whether it will be possible to utilize them and during which period of time, they have not been capitalized as deferred tax assets. Renewed evaluation as to whether deferred tax assets can be recognized for loss carryforwards is performed regularly.

In the Danish company, there is also a capitalized deferred tax asset of KSEK 620 booked against a third country's tax authority. This item is reported among other receivables.

## Note 11 Intangible fixed assets

Group	2006	2005
<b>Opening acquisition value</b>	<b>4,684</b>	<b>4,489</b>
Via acquisitions/disposals, etc.	–	–
Internally developed assets	11,149	–
Exchange-rate differences for the year	0	195
<b>Closing accumulated acquisition value</b>	<b>15,833</b>	<b>4,684</b>
<b>Opening amortization</b>	<b>–2,516</b>	<b>–1,618</b>
Via company acquisitions	–	–
Amortization for the year	–1,197	–816
Exchange-rate differences for the year	128	–82
<b>Closing accumulated amortization</b>	<b>–3,585</b>	<b>–2,516</b>
<b>Closing carrying amount</b>	<b>12,248</b>	<b>2,168</b>

Research and development expenditure amounted to KSEK 16,782 (6,100), corresponding to 29% of net sales. Of these costs, KSEK 11,149 was expensed, while the remaining KSEK 5,633 was charged against earnings.

Developed assets for the year were attributable to the new product portfolio for consumer products that will be launched starting in the spring of 2007.

### Disclosures concerning impairment testing

The recoverable amount for capitalized development costs is established on the basis of estimated economic life and volume. The starting point for this calculation is estimated future cash flows based on financial forecasts that were approved by management and cover the product lifecycles.

Management has established budgeted gross margins based on its expectations for market development. The weighted average growth that is used matches the forecasts in industry reports. Any differences arising from assumed and actual volumes indicate a need for impairment.

<b>Note 12 Tangible fixed assets</b>		
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Group	2006	2005
<b>Opening acquisition value</b>	3,871	2,059
Via acquisitions/disposals, etc.	–	–
Purchases	2,873	2,249
Sales and disposals	–896	–551
Exchange rate differences for the year	–155	114
<b>Closing accumulated acquisition value</b>	5,693	3,871
<b>Opening depreciation</b>	<b>–1,626</b>	<b>–1,559</b>
Via company acquisitions, etc.	–	–
Depreciation for the year	–760	–439
Sales and disposals	262	440
Exchange rate differences for the year	85	–68
<b>Closing accumulated depreciation</b>	<b>–2,039</b>	<b>–1,626</b>
<b>Closing carrying amount</b>	<b>3,654</b>	<b>2,245</b>

Parent Company	2006	2005
<b>Opening acquisition value</b>	–	–
Purchases	25	–
<b>Closing accumulated acquisition value</b>	25	–
<b>Opening depreciation</b>	–	–
Depreciation for the year	–6	–
<b>Closing accumulated depreciation</b>	<b>–6</b>	–
<b>Closing carrying amount</b>	<b>19</b>	–

<b>Note 13 Financial fixed assets</b>		
---------------------------------------	--	--

Group	2006	2005
<b>Opening acquisition value</b>	216	141
Via acquisitions/disposals, etc.	–	–
Purchases	631	69
Exchange rate differences for the year	42	6
<b>Closing accumulated acquisition value</b>	<b>889</b>	<b>216</b>

<b>Note 14 Accrued revenue and prepaid expenses</b>		
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Group	2006	2005
Personnel-related expenses	–	–
Other	739	17
<b>Total</b>	<b>739</b>	<b>17</b>

**Note 15 Shares and participations in subsidiaries**

<b>Parent Company</b>	<b>2006</b>	<b>2005</b>
<b>Opening carrying amount</b>	8,916	8,664
Purchases	610	252
<b>Closing carrying amount</b>	<b>9,526</b>	<b>8,916</b>

**Shares owned by the Parent Company at December 31, 2006**

<b>Company</b>	<b>Corporate reg. no</b>	<b>Registered office</b>	<b>No. of shares</b>	<b>Share of capital, %</b>	<b>Carrying amount</b>
Nextlink.to AS *	20 75 82 36	Gentofte, Denmark	672,590	100	8,744
Nextlink IPR AB	556691-0385	Stockholm	1,000	100	630
Nextlink Patent AB	556680-1774	Stockholm	1,000	100	100
Nextlink Inc.	16-1761709	Delaware, USA	10,000	100	52

**Shares owned by the Parent Company at December 31, 2005**

<b>Company</b>	<b>Corporate reg. no</b>	<b>Registered office</b>	<b>No. of shares</b>	<b>Share of capital, %</b>	<b>Carrying amount</b>
Nextlink.to AS *	20 75 82 36	Gentofte, Denmark	666,455	99	8,664
Nextlink IPR AB	556691-0385	Stockholm	1,000	100	100
Nextlink Patent AB	556680-1774	Stockholm	1,000	100	100
Nextlink Inc.	16-1761709	Delaware, USA	10,000	100	52

\* During the year, Nextlink AB implemented a non-cash share issue with the objective of acquiring all minority shares in Nextlink.to A/S. All minority owners except one accepted. This particular owner held 110 shares in Nextlink.to A/S, which were acquired on March 7, 2007.

**Note 16 Accrued expenses and prepaid revenue**

<b>Group</b>	<b>2006</b>	<b>2005</b>
Personnel-related expenses	1,965	794
Other	5,140	88
<b>Total</b>	<b>7,105</b>	<b>882</b>

<b>Parent Company</b>	<b>2006</b>	<b>2005</b>
Personnel-related expenses	343	–
Other	1,474	88
<b>Total</b>	<b>1,817</b>	<b>88</b>

**Note 17 Shareholders' equity**

See also Changes in shareholders' equity on page 33.

Parent Company  
At December 31, 2006, the share capital amounted to KSEK 14,663 distributed among 14,663,453 shares, each with a par value of SEK 1.00. The number of outstanding warrants was 2,926,867 divided into five programs:

- Warrants program 2004/2007, No. 2 amounts to 200,000 warrants entitling their holders to subscribe for 228,000 shares at a price of SEK 5.70 each until April 27, 2007.
- Warrants program 2004/2008, No.1 amounts to 450,000 warrants entitling their holders to subscribe for 477,000 shares at a price of SEK 14.10 each until January 27, 2008.
- Warrants program 2006/2010 amounts to 864,642 warrants entitling their holders to subscribe for 864,642 shares at a price of SEK 23.75 each until December 1, 2010.
- Warrants program 2007/2011 amounts to 1,017,225 warrants entitling their holders to subscribe for 1,017,225 shares at a price of SEK 28.50 each until December 1, 2011.
- Warrants program 2006/2009 amounts to 340,000 warrants entitling their holders to subscribe for 340,000 shares at a price of SEK 26.00 each until June 30, 2008.

## Note 18 Pledged assets and contingent liabilities

Pledged assets	Group		Parent Company	
	2006	2005	2006	2005
<b>For debts to credit institutes</b>				
Shares in subsidiaries	181	–	730	–
Bank deposits	50	50	50	50
Pledges accounts receivable	2,734	7,964	–	–
<b>Total</b>	<b>2,965</b>	<b>8,014</b>	<b>780</b>	<b>50</b>
Contingent liabilities	None	None	None	None

## Note 19 Disputes

### Disputes

Nextlink has stated in previous annual reports that its subsidiary Nextlink to A/S is currently involved in two disputes. One is a dispute with a previous sub-supplier relating to unauthorized product copying and the associated refusal by Nextlink to pay supplier invoices from the same supplier. The subject of the dispute has not been considered; only the form insofar as in what country the proceedings shall be held. Nextlink won in the first instance, but considering that this dispute may extend over several years and that the outcome is uncertain, the company has reserved an amount of approximately MSEK 2.6.

The second dispute involves three former employees and whether or not they are entitled to warrants. The former employees have filed a claim against the subsidiary and the Parent Company seeking damages of about MSEK 1.1 per person. At present, the company considers the prospects of a favorable outcome in this dispute as good and has therefore not allocated any reserves.

## Note 20 Earnings per share in the Group

Earnings per share before dilution	2006	2005
Loss for the year	–46,143	–11,084
Average number of outstanding shares, 000s	13,290	10,757
<b>Earnings per share before dilution</b>	<b>–3.47</b>	<b>–1.03</b>
Earnings per share after dilution	2006	2005
Loss for the year	–46,143	–11,084
Average number of outstanding shares, 000s	13,623	11,331
<b>Earnings per share before dilution</b>	<b>–3.47</b>	<b>–1.03</b>

Earnings per share before dilution are based on earnings for the year attributable to the Parent Company's shareholders, as well as a weighted average of the number of outstanding shares. Earnings per share after dilution is based on earnings for the year attributable to the Parent Company's shareholders, as well as a weighted average of the number of outstanding shares plus a weighted average of common shares to be added if all potential common shares giving rise to dilution are converted to common shares.

Only the warrants programs with issue prices less than the period's average share price can result in a dilution effect. The average share price during 2006 was SEK 21.60. The issue prices for the warrants programs meeting the condition for dilution were SEK 5.70 and SEK 14.10, respectively. No weighting was calculated for these warrants, since they were issued prior to 2006.

Potential common shares result in a dilution effect only when conversion results in lower earnings per share or higher loss per share. None of Nextlink's outstanding warrants programs result in a dilution effect, meaning that earnings per share are the same both before and after dilution.

As described in Note 17, Nextlink has five outstanding warrants programs that carry subscription rights for a total of 2,926,867 shares. Assuming full conversion, the number of shares will amount to 17,590,320.

**Dilution calculation**

The number of shares before dilution for 2006 will be	13,623
Average share price in 2006	21.60

**Warrants program 2004/2007**

Number of warrants	200,000
Number of shares	228,000
Subscription price	5.70
Payment on full subscription	1,299,600
Corresponding to shares at average price	60,167
Number of shares without compensation	167,833
<b>Total</b>	<b>228,000</b>

**Warrants program 2004/2008**

Number of warrants	450,000
Number of shares	477,000
Subscription price	14.10
Payment on full subscription	6,725,700
Corresponding to shares at average price	311,375
Number of shares without compensation	165,625
<b>Total</b>	<b>477,000</b>

**Warrants program 2006/2010**

Number of warrants	864,642
Number of shares	864,642
Subscription price	23.75
Payment on full subscription	20,535,248
Corresponding to shares at average price	950,706
Number of shares without compensation	-86,064
<b>Total</b>	<b>864,642</b>

**Warrants program 2007/2011**

Number of warrants	1,017,225
Number of shares	1,017,225
Subscription price	28.50
Payment on full subscription	28,990,913
Corresponding to shares at average price	1,342,172
Number of shares without compensation	-324,947
<b>Total</b>	<b>1,017,225</b>

**Warrants program 2006/2008**

Number of warrants	340,000
Number of shares	340,000
Subscription price	26.00
Payment on full subscription	8,840,000
Corresponding to shares at average price	409,259
Number of shares without compensation	-69,259
<b>Total</b>	<b>340,000</b>

The Board of Directors hereby certifies that to the best of its knowledge:  
the annual report was prepared according to generally accepted accounting practice,  
the information presented agrees with the actual circumstances and  
nothing of material importance has been omitted that would affect the presentation of the company conveyed by the annual report.

Stockholm, March 16, 2007

Christian Paulsson  
Chairman

Fredrik Sandelin  
Board member

Jan Werne  
Board member

Lars Højgård Hansen  
Acting President

# Audit report 2006

**To the Annual Meeting of Nextlink AB (publ),  
corporate registration number 556651-0987**

I have examined the annual accounts, the consolidated accounts (on pages 22-42), the accounting records and the administration by the Board of Directors and the President of Nextlink AB (publ) for 2006. The Board of Directors and the President are responsible for these accounts and the administration of the company, as well as for the application of the Swedish Annual Accounts Act in preparing the annual accounts and for application of International Financial Reporting Standards (IFRS) as adopted by EU and the Swedish Annual Accounts Act in preparing the consolidated financial statements. My responsibility is to render an opinion on the annual accounts, the consolidated accounts and the administration based on my audit.

The audit has been performed in accordance with generally accepted auditing standards in Sweden. Those standards require that I have planned and performed the audit to obtain high but not absolute assurance that the annual accounts and the consolidated accounts contain no material errors. An audit also includes assessing a sample of supporting documentation for amounts and other information in the accounting records. An audit also assesses the accounting principles and their application by the Board of Directors' and the President and the significant estimates made by the Board of Directors and the President in preparing the annual accounts and the consolidated accounts, as well as evaluating the overall presentation of information in the annual accounts and the consolidated accounts. As a basis for my opinion on discharge from liability, I examined significant decisions, actions and circumstances in the company to be able to determine whether any Director or the President is liable for damages to the company. I also examined whether any director or the President has acted contrary to the Swedish Companies Act, the Swedish Annual Accounts Act or the Articles of Association. I believe that my audit gives me a reasonable basis for my opinion below.

The annual accounts have been prepared in accordance with the Swedish Annual Accounts Act and provide a true and fair picture of the company's performance and financial position in accordance with generally accepted accounting principles in Sweden. The consolidated accounts have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by EU and the Swedish Annual Accounts Act and provide a true and fair picture of the Group's performance and financial position. The Board of Directors' Report is consistent with the other parts of the annual accounts and the consolidated accounts.

I recommend to the General Meeting that the income statements and the balance sheets for the Parent Company and the Group be adopted, that the profit/loss of the Parent Company be dealt with in accordance with the proposal in the Board of Directors' report and that the members of the Board of Directors and the President be discharged from liability for the financial year.

STOCKHOLM, MARCH 16, 2007

Anders Bergman  
*Authorized Public Accountant*

# Five-year review

	JAN. 1 – DEC. 31, 2006	JAN. 1 – DEC. 31, 2005	JAN. 1 – DEC. 31, 2004	JAN. 1 – DEC. 31, 2003*	JAN. 1 – DEC. 31, 2002*
<b>INCOME STATEMENTS, KSEK</b>					
<b>Sales</b>	<b>57,517</b>	<b>38,028</b>	<b>19,060</b>	<b>23,723</b>	<b>17,131</b>
Cost of goods sold	-34,293	-28,972	-10,207	-13,089	-5,748
<b>Gross profit</b>	<b>23,224</b>	<b>9,056</b>	<b>8,853</b>	<b>10,634</b>	<b>11,383</b>
Operating costs	-64,996	-17,977	-13,261	-13,513	-9,915
Depreciation and amortization	-1,957	-1,255	-850	-1,636	-830
<b>Operating profit/loss</b>	<b>-43,729</b>	<b>-10,176</b>	<b>-5,258</b>	<b>-4,515</b>	<b>638</b>
Net financial items	-2,414	-787	-130	-408	-380
<b>Profit/loss after financial items</b>	<b>-46,143</b>	<b>-10,963</b>	<b>-5,388</b>	<b>-4,923</b>	<b>258</b>
	06-12-31	05-12-31	04-12-31	03-12-31	02-12-13
<b>BALANCE SHEETS, KSEK</b>					
<b>ASSETS</b>					
<b>Fixed assets</b>					
Intangible assets	12,248	2,168	2,871	2,573	3,080
Tangible fixed assets	3,654	2,245	500	559	636
Financial fixed assets	889	216	141	131	119
<b>Total fixed assets</b>	<b>16,791</b>	<b>4,629</b>	<b>3,512</b>	<b>3,263</b>	<b>3,835</b>
<b>Current assets</b>					
Inventories	13,709	8,273	4,401	8,068	4,952
Accounts receivable	8,271	7,964	3,636	4,454	3,758
Other receivables	3,761	3,175	788	0,	322
Cash and cash equivalents	13,171	19,419	8,206	615	1,131
<b>Total current assets</b>	<b>38,912</b>	<b>38,831</b>	<b>17,031</b>	<b>13,137</b>	<b>10,163</b>
<b>TOTAL ASSETS</b>	<b>55,703</b>	<b>43,460</b>	<b>20,543</b>	<b>16,400</b>	<b>13,998</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>					
<b>Current liabilities</b>	<b>16,688</b>	<b>33,280</b>	<b>14,688</b>	<b>7,012</b>	<b>5,191</b>
Liabilities to credit institutions	17,734	4,447	2,372	2,522	5,301
Accounts payable	13,641	4,849	1,646	4,402	3,506
Other current liabilities	7,640	884	1,837	2,464	-
<b>Total current liabilities</b>	<b>39,015</b>	<b>10,180</b>	<b>5,855</b>	<b>9,388</b>	<b>8,807</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>55,703</b>	<b>43,460</b>	<b>20,543</b>	<b>16,400</b>	<b>13,998</b>

\* Pro forma; the figures relate only to the Danish company, since the Group had not yet been established.

	JAN. 1 – DEC. 31, 2006	JAN. 1 – DEC. 31, 2005	JAN. 1 – DEC. 31, 2004	JAN. 1 – DEC. 31, 2003*	JAN. 1 – DEC. 31, 2002*
<b>CASH FLOW STATEMENT, KSEK</b>					
<b>Profit/loss before taxes</b>	<b>-46,143</b>	<b>-10,963</b>	<b>-5,388</b>	<b>-4,922</b>	<b>258</b>
Adjustment for items not included in cash flow	2,131	1,498	-3,024	1,636	830
<b>Cash flow from operations before changes in working capital</b>	<b>-44,012</b>	<b>-9,465</b>	<b>-8,412</b>	<b>-3,286</b>	<b>1,088</b>
Changes in working capital	9,219	-8,337	3,458	-2,560	-5,452
<b>Cash flow from operating activities</b>	<b>-34,793</b>	<b>-17,802</b>	<b>-4,954</b>	<b>-5,846</b>	<b>-4,364</b>
<b>Cash flow from investment activities</b>	<b>-14,023</b>	<b>-2,006</b>	<b>-1,895</b>	<b>-1,081</b>	<b>-2,696</b>
<b>Cash flow from financing activities</b>	<b>42,568</b>	<b>31,021</b>	<b>11,265</b>	<b>5,851</b>	<b>7,743</b>
<b>CASH FLOW FOR THE YEAR</b>	<b>-6,248</b>	<b>11,213</b>	<b>8,206</b>	<b>-1,076</b>	<b>683</b>
<b>KEY DATA</b>					
<b>Margins</b>					
Gross margin, %	40.4	23.8	46.4	44.8	66.4
Operating margin, %	-76.0	-26.8	-27.6	-19.0	3.7
Profit margin, %	-80.2	-28.8	-28.3	20.8	1.5
<b>Capital structure</b>					
Equity/assets ratio, %	30.0	76.6	71.5	42.8	37.1
<b>Other</b>					
Number of professional products sold	10,282	6,405	4,155	3,234	3,213
Number of consumer products sold	173,392	109,243	10,060	10,090	3,022
Average number of employees	39	22	15	11	10
<b>Per share data</b>					
Number of shares at balance sheet date	14,663,453	12,796,698	10,663,915	672,700	153,760
Earnings per share, SEK	-3.47	-1.03	-0.76	-7.32	1.68
Equity per share, SEK	1.14	2.60	1.38	10.42	33.76
Share price at year-end, SEK	21.40	26.00	8.50	-	-

\*Pro forma; the figures relate only to the Danish company, since the Group had not yet been established.

## DEFINITIONS OF KEY DATA

### Gross margin, %

Gross profit in relation to net sales.

### Operating margin, %

Operating profit in relation to net sales.

### Profit margin

Profit before tax in relation to net sales.

### Equity/assets ratio, %

Shareholders' equity at year-end in relation to total assets.

### Earnings per share, SEK

Profit after tax divided by number of outstanding shares on the balance-sheet date.

### Equity per share

Shareholders' equity divided by number of outstanding shares on the balance-sheet date.

### Share price on balance sheet date

Market price of share on last day of trading for the period.

# Board of Directors, senior management and auditors

## BOARD OF DIRECTORS



**Christian Paulsson** (born 1975)

Chairman since 2005.

Paulsson has been involved with Nextlink since 2005. He has extensive experience from the financial sector, including Mangold Fondkommission AB and Alfred Berg Fondkommission AB (now ABN Ambro). Paulsson also has experience from Booz Allen & Hamilton and Akzo Nobel Industrier. He is President of Lage Jonason AB. Paulsson is also a Board member of Lage Jonason AB, Private Brands AB and A-Com AB. Privately, he owns 17,280 shares plus warrants corresponding to 100,000 shares in Nextlink.



**Fredrik Sandelin** (born 1962)

Board member since 2006.

Sandelin has been involved with Nextlink since 2006. He has extensive experience from a number of senior positions, including with Ratos, where he worked as Chief Financial Officer. Sandelin also worked many years as Vice President and CFO within Scandic Hotels and is currently President of A-Com AB. He is also a Chairman of the Board of More Business Media Aktiebolag and Bizkit A-Com AB and Board member of A-Com AB, A-Com Holding, Tvåpunktnoll Intressenter AB, Differ Sverige AB, Market Technology NE Intressenter AB, A-Com Interactive Development Intressenter AB, Rentatank Intressenter AB, Trackster Intressenter Sweden AB, Aaström & Co Intressenter AB, Conradi Hvid Intressenter AB, A-Com Interactive AB, A-Com Advertising Group AB and A-Com Support Group AB. Privately, Sandelin owns 20,000 shares plus warrants corresponding to 80,000 shares in Nextlink.



**Jan Werne** (born 1952)

Board member since 2004.

Werne has been involved with Nextlink since 2004. He has extensive experience from senior positions, including President of Utfors AB and SignOn AB. Werne is President of Tilgin AB and Chairman of the Board of Tilgin Incentive AB and Tilgin Intressenter AB. He is also a deputy Board member of Affärsstrategi Annika Werne & Co Aktiebolag. Werne does not own any shares in Nextlink, either privately or through companies. Werne owns warrants corresponding to 80,000 Nextlink shares.

## Work of the Board of Directors

The company must observe the provisions of the Swedish Companies Act with regard to corporate governance. Accordingly, the Board of Directors of Nextlink have established a procedure for its work, instructions regarding the division of responsibilities between the Board and the President that describes his work assignments and reporting obligations and instructions for financial reporting. This work procedure is reviewed annually.

The Board of Directors held 14 minuted meetings during the year. In addition, the Chairman of the Board had regular contact with the company's President. Matters considered at these minuted meetings included those prescribed by the Articles of Association, as well as business conditions, earnings and financial position, interim and year-end reports and major investments. The Board of Directors has its registered office in Stockholm.

Since Nextlink has a market value less than SEK 3 billion, it is not subject to the requirements of the Swedish Code of Corporate Governance.

## Board committees

### Remuneration Committee

The Board in its entirety considers issues relating to remuneration and other terms of employment for company management.

## SENIOR MANAGEMENT

Nextlink's senior executives are presented below, along with their background, position and year of employment.



**Lars Højgård Hansen** (born 1963)

Acting President since February 2007.

Højgård Hansen has been involved with Nextlink since 2006. He has extensive experience that includes senior positions in the telecom industry as Vice President Marketing for Jabra/GN Netcom

and sales and marketing Director at Ericsson and SonyEricsson for mobile telephone accessories in Europe, the Middle East and Africa. Højgård Hansen does not own any shares or warrants in Nextlink either privately or through companies.



**Johan Wennerholm** (born 1968)

CFO since 2006.

Wennerholm has been involved with Nextlink since 2006. He has extensive experience that includes senior positions as CFO for Upgrade Communications AB, COO for PNB Communication

AB and financial analyst at Tetra Pak. Wennerholm is an owner of CFR Management & Consulting and OBERON MARIN. He is also the sole owner and Board member of Nordic Infrastructure AB. Privately and through companies, Wennerholm owns 1,000 Nextlink shares.

## Auditors

The term of office for auditors is four years by law. At the extraordinary general meeting in 2004, Anders Bergman (born 1963) from the auditing firm SET Revisionsbyrå AB was appointed auditor. Anders Bergman has been an authorized public accountant since 1995 and is a member of FAR SRS, the institute for the accounting profession in Sweden.

# The Nextlink share and ownership structure

## SHARE CAPITAL

At December 29, 2006, Nextlink's share capital amounted to SEK 14,663,453, represented by 14,663,453 shares, each with a par value of SEK 1.00. A round lot consists of 200 shares. Each share carries equal rights to the company's assets and profits and has the same voting rights. At the Annual General Meeting, every regis-

tered shareholder may vote for the full number of shares that he or she owns or represents without limitations. At December 29, 2007, there were a total of 326 shareholders in Nextlink AB.

## SHARE CAPITAL TREND

YEAR	TRANSACTION	INCREASE IN NO. OF SHARES	TOTAL NO. OF SHARES	INCREASE IN SHARE CAPITAL	TOTAL SHARE CAPITAL	PAR VALUE OF SHARE
Nov. 11, 2003	Formation of company	1,000	1,000	100,000	100,000	100.00
March 24, 2004	Split (100:1)	99,000	100,000	0	100,000	1.00
March 24, 2004	New issue	400,000	500,000	400,000	500,000	1.00
June 30, 2004	Non-cash issue	8,663,915	9,163,915	8,663,915	9,163,915	1.00
July 30, 2004	New issue	1,500,000	10,663,915	1,500,000	10,663,915	1.00
Dec. 22, 2005	New issue	2,132,783	12,796,698	2,132,783	12,796,698	1.00
Sept. 24, 2006	New issue	79,755	12,876,453	79,755	12,876,453	1.00
Oct. 12, 2006	New issue	1,270,000	14,146,453	1,270,000	14,146,453	1.00
Oct. 30, 2006	New issue	464,000	14,610,453	464,000	14,610,453	1.00
Oct. 30, 2006	New issue	53,000	14,663,453	53,000	14,663,453	1.00

## PROPOSED NEW ISSUE

After the close of the fiscal year, on February 14, 2007, the Board of Directors of Nextlink decided, subject to approval by the Annual General Meeting, to implement a rights issue of about MSEK 36.6 for existing shareholders. The new issue will comprise at most 2,094,779 shares, each with a par value of SEK 1.00, thus increasing Nextlink's share capital by at most SEK 2,094,779\* to at most SEK 16,758,232. The issue price was set at SEK 17.50 per share. The subscription period will extend from April 2 up to and including April 16, 2007.

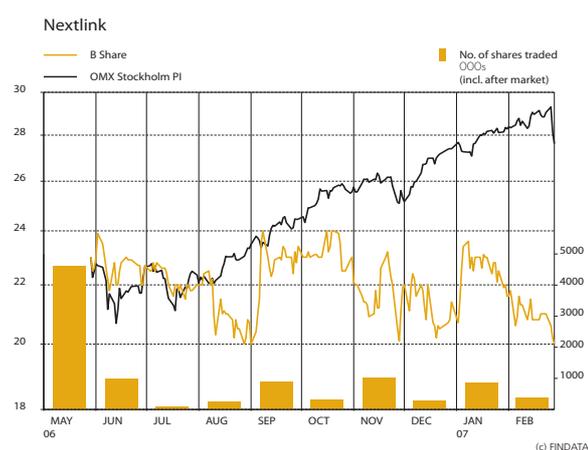
For further information, see the description in the prospectus that will be published around the March 23, 2007.

## PRICE TREND

The chart below shows the price trend for the Nextlink share. Last price paid on December 29, 2006, was SEK 21.40, corresponding to a total market capitalization of MSEK 314. During the period January 1, 2006, to December 31, 2006, a total of 13.0 million Nextlink shares were traded at a value of MSEK 289.

\* Or the higher amount, or the higher number of shares, that could result from exercise of warrants under Nextlink's 2004/2008: 1 and 2005/2010 warrants program, although not more than SEK 2,264,745 or not more than 2,264,745 shares, respectively.

## PRICE TREND FOR SHARES IN NEXTLINK AB



(c) FINDATA

## TRADING IN NEXTLINK SHARES

The Nextlink share is listed on the First North marketplace, which is a part of the OMX Nordic Exchange. Nextlink is traded under the symbol NXTL and has the ISIN code SE0001200015. A round lot consists of 200 shares. Shares listed on First North are traded in the Stockholm Stock Exchange's SAXESS trading system. Trading takes place electronically and is conducted continuously in the same manner as for listed companies. Information on prices, volume and order depth is disclosed in real time through the same channels as for listed shares. The Stockholm Stock Exchange is not responsible for monitoring the companies on First North, which instead are monitored by a Certified Adviser. Nextlink's Certified Adviser is Mangold Fondkommission, which is a member of and has a contract with the Stockholm Stock Exchange. The Certified Adviser ensures that the company meets the requirements for First North and that it regularly complies with information requirements.

The company follows the First North Rule Book and other applicable stock market regulations, as well as the Swedish Companies Act. All shares have equal rights to dividends and a share in the company's profit and its assets in the case of liquidation.

## MARKET MAKER

Nextlink has selected Öhman Fondkommission as market maker for the company's share. The objective is to promote favorable liquidity in the share and to reduce the difference between buy and sell prices during trading. According to the contract, Öhman Fondkommission must ensure a limited spread between buy and sell prices

## DIVIDEND POLICY

According to the dividend policy adopted by the Nextlink Board of Directors, the magnitude of future dividends must take into consideration Nextlink's long-term growth and earnings trend, as well as capital requirements in relation to financial targets. The goal for the dividend policy is to maintain a dividend of between 25 and 50% of profit after tax. The company does not expect to pay a dividend over the coming years. All internally generated capital will be used to finance Nextlink's expansion of the enterprise.

At present, it is not possible for Nextlink to pay a dividend to the shareholders.

## OWNERSHIP IN NEXTLINK AB AT DECEMBER 29, 2006

SHAREHOLDER	NO. OF SHARES	SHARE OF VOTING RIGHTS AND CAPITAL
Lage Jonason, with family and through companies	3,321,748	22.7%
Sis Segaintersettle AG/Zürich	2,706,700	18.5%
Alecta Pensionsförsäkring	2,400,000	16.4%
Bank of New York	800,000	5.5%
Karin Jonason	653,000	4.5%
Roburs Exportfond	519,000	3.5%
Folksam Fond Aktiebolag	483,000	3.3%
Clariden Bank	300,000	2.0%
Tedde Jeansson	299,000	2.0%
Banco Teknik & Innovation	281,600	1.9%
Others	2,899,405	19.8%
<b>Total</b>	<b>14,663,453</b>	<b>100%</b>

## SUMMARY OF OUTSTANDING WARRANTS PROGRAMS

WARRANTS PROGRAM	NO. OF SUBSCRIPTION WARRANTS	SUB- SCRIPTION PRICE, SEK	POSSIBLE INCREASE IN SHARE CAPITAL, SEK	SUBSCRIPTION PERIOD	DILUTION EFFECT, %	CUMULATIVE DILUTION EFFECT, %
2004/2007 No 1	200,000	5.70	228,000	APR. 27, 2004 – APR. 27, 2007	1.53%	1.53%
2005/2008 No 2	450,000	14.10	477,000	FEB. 1, 2005 – JAN. 31, 2008	3.15%	3.10%
2006/2010 No 3	864,642	23.75	864,642	DEC. 1, 2006 – DEC. 1, 2010	5.57%	5.33%
2007/2010 No 4	1,017,225	28.50	1,017,225	DEC. 1, 2007 – DEC. 1, 2011	6.49%	5.90%
2006/2008 No 5	340,000	26.00	340,000	JUNE 30, 2007– JUNE 30, 2008	2.27%	1.93%
<b>Total</b>	<b>2,871,876</b>		<b>2,926,867</b>		<b>16.64%</b>	

### WARRANTS

There are currently five outstanding warrants programs in Nextlink AB:

#### Warrants program No. 1

200,000 warrants entitling their holders to subscribe for 228,000 newly issued shares in Nextlink AB at a price of SEK 5.70 each during the period from April 27, 2004 to April 27, 2007. On full subscription of the warrants, the share capital may increase by at most SEK 228,000. All warrants are held by Nextlink.to A/S.

#### Warrants program No. 2

450,000 warrants entitling their holders to subscribe for 477,000 newly issued shares in Nextlink AB at a price of SEK 14.10 each during the period from February 1, 2005 to January 31, 2008. Of these warrants, 270,000 have been acquired by Nextlink employees and the remaining 180,000 are held by Nextlink.to AS. On full subscription of the warrants, the share capital may increase by at most SEK 477,000.

#### Warrants program No. 3

864,642 warrants entitling their holders to subscribe for a newly issued share in Nextlink AB at a price of SEK 23.75 per share during the period from December 1, 2006 to December 1, 2010. On full subscription of the warrants, the share capital may increase by at most SEK 864,642.

#### Warrants program No. 4

1,017,225 warrants entitling their holders to subscribe for a newly issued share in Nextlink AB at a price of SEK 28.50 per share during the period from December 1, 2007 to December 1, 2011. On full subscription of the warrants, the share capital may increase by at most SEK 1,017,225.

#### Warrants program No. 5

340,000 warrants entitling their holders to subscribe for a newly issued share in Nextlink AB at a price of SEK 26.00 per share during the period from June 30, 2007 to June 30, 2008. On full subscription of the warrants, the share capital may increase by at most SEK 340,000. The warrants were issued without charge to the wholly owned subsidiary Nextlink IPR AB, which thereafter transferred all warrants at market price to Members of the Board, with 100,000 allocated to Chairman of the Board Christian Paulsson and 80,000 each to Board members Jan Werne and Fredrik Sandelin and former Board member Ole Oftedal.







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